



## **U.S. Department of State FY 2000 Country Commercial Guide: Hungary**

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## **I. EXECUTIVE SUMMARY**

Country Commercial Guide (CCG) FY 2000 presents a comprehensive look at Hungary's commercial environment, using economic, political, and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. embassies through the combined efforts of several U.S. Government agencies.

Over the past 10 years Hungary has developed a leading economy in Central Europe, attracted one of the highest per capita foreign direct investment levels in the world and, as a full NATO and soon-to-be European Union (EU) member, created a commercial environment that is stable and reliable. The private sector currently produces over 80 percent of GDP with key sectors such as energy in private hands through a program of strategic privatization that in many cases exceeds energy privatization in Western Europe. Over 80 percent of Hungary's trade is carried out with Organization for Economic Cooperation and Development (OECD) countries. The United States is the 5<sup>th</sup> most important trading partner for Hungary. In terms of total trade levels, Hungary is the United States most significant commercial partner in the region.

Hungary's growing economy and expanding marketplace generates strong opportunities for U.S. exporters. Over the past several years, U.S. exports of information technology, consumer goods, telecommunications, services, medical equipment and healthcare technology have been in demand. For the immediate future, the "Best Prospects" section outlines seven top categories of high trade and investment potential. U.S. exporters should also be aware that with Hungary's membership in the European Union, Hungary will be an excellent platform for value added production of U.S. products destined for the enormous European markets. Finally, Hungary also provides an excellent and stable base for U.S. exporters considering market expansion to more challenging markets east and south of Hungary.

For investors, Hungary's well-educated, productive and skilled labor force, liberal economic policies, relatively low-cost labor rates (by OECD standards), and close proximity to western European markets have already attracted \$19 billion in foreign direct investment. U.S. investors contributed over one-third, or more than \$7 billion of the total. A strong pace of investment is expected for the next several years with industry focus on the tourism, franchise, automotive, electronics, and general manufacturing sectors.

Hungary's first ten years of foreign investment have clustered in Budapest and major areas in Western Hungary. At the same time, areas in Eastern Hungary, particularly the northeastern cities of Nyíregyháza, Debrecen, and Miskolc are drawing increasing interest from foreign investors. There are incentives and special support facilities in the region including the U.S. Embassy's Eastern Hungary Program. (Further information is available on: <http://www.invest-ehp.com>.)

Hungary, as a whole, has drawn a significant U.S. presence due to several market advantages. First, Hungary has a developed commercial environment with primary strengths in human capital. Second, Hungary is an efficient and economical entry point to neighboring markets. Third and last, Hungary is a proven successful location for U.S. investment coupled with an attractive and secure location for American companies to conduct business.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>, <http://www.state.gov> and <http://www.mac.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRAD(E) or by fax at (202) 482-4473.

## **II. ECONOMIC TRENDS AND OUTLOOK**

### **A. Major Trends and Outlook**

The first six months of 1999 have been challenging for Hungary. The costs to the budget of heavy winter snow, spring flooding, and the Kosovo conflict have been high. Lower than expected inflation has hit nominal revenues as well. Thus the central budget has come under significant pressure, and the government's ability to meet its budget deficit target of 4 percent of GDP seems in jeopardy. With the addition of little significant new progress in major structural reforms, accompanied by an expected current account deficit nearing 5 percent of GDP, the Hungarian economy's strong performance of the last 4 years may seem to be waning. Reports of its demise, however, are greatly exaggerated. NATO's new member can still expect GDP growth of a respectable 3.5 percent or better this year. The picture of Hungary as a full partner with the family of democratic nations, rapidly converging on the EU, still accurately characterizes the situation on the ground.

Despite a challenging year and a difficult international environment, and assuming a relatively strong recovery in Western European economies, Hungary's fundamental strength as a fully functioning market economy provides it with the foundation needed to weather the turbulence. Nonetheless, fiscal probity will have to be the policy hallmark, along with continued efforts to reduce inflation, prevent deterioration in the external balances, and support the pro-investment policies of the past, while completing structural reforms, including taxation, public and higher education, health care, and local government financing.

Hungary no longer requires IMF financial assistance and has repaid all its debt to the Fund. Hungary's sovereign foreign currency debt issuance's carry favorable, mid-investment-grade ratings from all major credit rating agencies, with Moody's having announced an upgrade to Baa1 from Baa2 in early June. Hungary's currency, the forint (HUF), is fully convertible for current account purposes, and is managed by a pre-announced crawling peg devaluation foreign exchange regime. The current rate of monthly devaluation of 0.5 percent will be cut to 0.4 percent in October. Hungary became a member of the OECD in May 1996; is a founding member of the WTO; joined NATO in March 1999, and has been in on-going, substantive EU accession negotiations since March 1998.

- Although GDP growth is unlikely to reach the 1999 budget assumption of 4 to 5 percent, 3.5 percent or better is not out of the question. After 4.6 percent GDP growth in 1997, and 5.1 percent in 1998, 4 percent or more would finally bring Hungary back to its 1989 real GDP level.
- The 1998 consolidated public sector deficit was 4.7 percent of GDP, below the government target of 4.9 percent. When bank consolidations are added -- the last Hungary is likely to see in the medium-term -- the deficit was closer to 6.9 percent. The deficit reached 89 percent of the government's 1999 target of 3.95 percent of GDP in the first half of the year, making that target appear increasingly unreachable. The deficit, however, will not likely exceed 4.5 percent of GDP. The consolidated public sector gross debt stock continued to decline from an end-1993 level of 90 percent of GDP to 59 percent at the end of 1998, below the EU Maastricht threshold of 60 percent.
- After declining to a 20-year low of \$987 million (2.2 percent of GDP) in 1997, the current account deficit widened in 1998 to \$2.3 billion (5 percent of GDP). Exports grew by 20.4 percent in 1998 (\$23 billion), while imports increased by 21.1 percent (\$25.7 billion). Export and import growth of 10-13 percent, and 12-14 percent, respectively, are likely in 1999. Non-debt

creating foreign investment is expected to cover the projected \$2.5 billion deficit in 1999.

- The very high export growth and large privatization receipts of the last three years, which allowed for a rapid reduction in Hungary's debt load, are ebbing in 1999. Hungary will continue its careful handling of the now manageable debt burden to maintain favorable debt ratings and borrowing terms. Highly successful first quarter offerings in 7-10-year bonds denominated in Euros, dollars, and forints have been part of a strategy of lengthening maturities and diversifying currency risk.
- The inflation rate fell rapidly in 1998, from an annual average of 18.4 percent in 1997 to 14.3 percent, with year-on-year inflation of 11 percent in December 1998. Year-on-year inflation dipped to 9.1 percent in June 1999, and the government has credibly forecast 8-9 percent annual average inflation for the year.
- With about \$19.7 billion in Foreign Direct Investment (FDI) since 1989, Hungary has been a leading destination for FDI in Central and Eastern Europe (including the former Soviet Union). Of this, over \$7 billion has come from U.S. companies. The largest U.S. investors include Ameritech, GE, General Motors, U.S. West, Coca-Cola, Ford, IBM, and PepsiCo. Products at least partially produced by foreign-owned companies account for almost 75 percent of Hungary's exports. The industrial sector has received some 55 percent of FDI.
- Hungary stands as a model of telecom, banking and energy sector cash privatization. One-third of all FDI has come from privatization transactions. Majority share sales of state-owned assets are essentially complete; minority, blocking, and golden shares in major firms are next to go, and will proceed through the stock exchange. New infrastructure projects, such as the recently completed tender for the next generation, DCS 1800 MHz mobile telephone system (won by a UK-U.S. consortium) are also in progress. The private sector produces over 80 percent of GDP; foreign owners control 70 percent of financial institutions, 66 percent of industry, 90 percent of telecommunications, 60 percent of energy production, and 50 percent of the trading sector.
- A year of high volatility on the Budapest Stock Exchange (BSE) calmed in the first half of 1999, with the BUX index continuing its recovering from its late 1998 Russia-crisis crash to roughly 75 percent of its July 1998 record high. Some of the dynamism of 1997 seems to be back, and the BUX has steadily ticked upward in



the second quarter. The BSE added a number of firms in early 1999, and should approach a listing of 65-70 firms by year-end. New privatization public offerings and growing investment from the 1998 pension reform should boost private savings as well as equity markets; with EU accession talks proceeding well, portfolio managers are looking to Hungary to be the next EU "convergence play".

- 84 percent of Hungary's exports went to OECD countries, 73 percent to the EU, in 1998. U.S. exports to Hungary reached roughly \$440 million in 1998, up 10 percent over 1997. Hungary's exports to the U.S. increased 36 percent to about \$1.5 billion. U.S. firms also account for much of Hungary's growing trade with the EU. Hungary is ranked 68th among U.S. trading partners. Primary U.S. exports include auto parts, computer equipment, films, videos, and CDs. Hungary exports primarily electrical machinery, machine tools, vehicles (non-railway), and organic chemicals to the U.S.

#### B. Principal Growth Sectors

The Hungarian government considers that Hungary could become a hub for regional transportation, informatics, and finance. The government's modernization plans stress this hub concept.

The following sectors are considered to have substantial growth prospects in the coming years:

- Telecommunications/Information Technology

The Hungarian Telephone Company (MATÁV) is majority owned by Ameritech (US) and Deutsche Telekom (German). The government sold most of its remaining shares on the stock exchange in November 1997. MATÁV will lose its long-distance monopoly at the end of 2001 and Hungarian and foreign companies are forming new telecommunications consortiums to compete in this lucrative market. Cellular companies, Westel (450), Westel 900, and Pannon GSM have mobile services available across Hungary. Although the telecom sector in Hungary was long underdeveloped, telecommunication services have significantly improved, and investment in value-added services, such as Internet access and VSAT, are underway.

- Services

Services, including financial services, advertising and retailing, represent a growing industry in Hungary. These are areas that only began developing several years ago and are now becoming more competitive and customer friendly. A new advertising law should increase revenues in this field, while

services, as a whole should benefit from an expected increase in consumption in 1998.

- Automotive Industry

Major companies, including Ford, General Motors, Audi, Suzuki and United Technologies Automotive, have established multi-million dollar investments for auto-assembly and/or component manufacture. Equally important, these companies are expanding operations and manufacturing and seeking to use more Hungarian components. Hungary has targeted increased investment in this sector as a primary goal. While domestic demand for cars is important, the basic rationale for automotive production in Hungary continues: skilled and relatively low wage labor; an ever-increasing automotive supplier and vendor network; a stable economy; and a highly advantageous location.

- Food Processing

Hungary has an outstanding agricultural base but significant modernization is required in all fields including the food-processing sector. Formerly, food processing was functional and minimal, with little value-added. Given traditional strengths of Hungary in this field, an infusion of new technology could offer significant market take-off prospects.

#### C. Government Role in the Economy

Since 1989, the private sector in Hungary has grown from approximately 20 percent to over 85 percent of GDP. The socialist-led government of 1994-1998 accelerated the privatization process, with significant progress in 1995-1997, notably in energy, banking and telecommunications. Some 1,700 of 2,000 state-owned companies were privatized between 1989 and 1999, with another 218 firms still to go. The current government coalition intends to generate about \$500 million in privatization revenues in 1999, through sales of state shares in power supply, textile, real estate, chemical, pharmaceutical, and broadcasting firms. The government has kept expenditures under 50 percent of GDP since 1997 and targets 45 percent of GDP by 2002.

#### D. Balance of Payments Situation

Hungary's balance of payments situation improved dramatically between 1994 and 1997, with the current account deficit declining from \$4 billion to an exceptionally low \$987 million over that period. The deficit widened in 1998, with the impact of both worldwide financial turbulence and an up-tick in the rate of growth of imports. The government projects a deficit of around

\$2.5 billion in 1999, or about 5 percent of GDP, which should be covered by non-debt creating foreign investment in-flows.

#### E. Infrastructure

- Motorways

Hungary's transportation infrastructure is relatively developed compared to other countries in the region; however, four-lane highways only cover part of the country. The Government has announced expansion plans that include linking all major cities with four-lane highways over the next seven years. In addition, Hungary has concluded preparation plans to build a European Corridor from Venice, Italy to Kiev, Ukraine, including Hungary. A BOT concession link on the M1 completed in 1995 reduced the trip between Budapest and Vienna to less than three hours.

- Railways

Hungary has an extensive railway system which links large and medium size cities. Approximately 158 million passengers and 43 million tons of goods are transported annually across 7,600 kilometers of tracks (of this 2,184 kilometers is electrified). Much of the tracks need to be upgraded to allow for faster trains. In addition, MAV, the Hungarian Railway Company, plans to modernize its ticketing system and management information systems, which will greatly improve overall efficiencies and operations of the railways.

- Air

Hungary's major airport, Ferihegy, is located in Budapest. The airport currently operates from two terminals. The completion of Terminal 2's expansion at the end of 1998 will double the airport's capacity. There is virtually no domestic air service in Hungary except a few services during the summer months. Some larger cities maintain airports for private aircraft and plans have been discussed for transforming former Soviet air bases into domestic passenger and cargo airfields.

- Telecom

Hungary now has a highly developed telecommunications system as indicated by segments of the country with 100 percent digital service, and the choice of 450, 900, or 1800 MHz mobile service. This level of service is in sharp contrast to the early 1990s when the installed base was 1.5 million lines and a penetration rate of 15 lines per 100 persons, resulting in a call completion rate of only 40 percent. Major investments by Ameritech and Deutsche Telekom in MATÁV has resulted in 200,000 - 300,000 new lines per year and a waiting period of less than one month compared to several years. In addition, customer service has considerably improved. MATÁV holds a monopoly on international calling into December 2001, at which time several companies are expected to offer competitive service.

- Utilities

Hungary has nearly privatized all its gas and electric generation and distribution facilities, reaching privatization levels of Great Britain. Foreign energy firms purchased power generation plants with the intent to modernize and expand capacities in order to meet new industrial demand as well as replace capacity from the retirement of obsolete plants. Approximately 43 percent of Hungary's electricity are generated by the Paks nuclear facility (state-owned), which hopes to double production by the year 2005. Gas and electricity price increases have risen progressively and are expected to reach world market levels.

### **III. POLITICAL ENVIRONMENT**

#### **A. Nature of Political Relationship with the United States**

Bilateral relations between the United States and Hungary are excellent. Euro-Atlantic integration and Hungary's strong pro-U.S. outlook enjoy solid support among all major political parties and the public as a whole. Hungary's integration with western political, economic and security institutions continues to advance with U.S. support. Hungary became a member of NATO in March 1999. Throughout the Kosovo crisis, it proved itself a steadfast ally, providing important political and logistical support during the conflict. Hungary is contributing to the KFOR peacekeeping mission in Kosovo, as well as several other international peacekeeping or observer missions, including in Cyprus, Georgia, and Bosnia. Hungary has hosted since 1995 an U.S. military base that supports American SFOR troops in Bosnia. Hungary is also an active participant in multilateral force, including serving as the current chairs of the Missile Technology Control Regime and the Chemical Weapons Convention.

The U.S.-Hungarian Mutual Legal Assistance Treaty (MLAT) went into effect in August 1996. Hungary and the U.S. are partners in the creation of the International Law Enforcement Academy (ILEA) located in Budapest to train police officers from the region and to improve cooperation in all areas of law enforcement. Hungary and the U.S. are cooperating actively in the fight against international organized crime. Hungary, along with the United States, is among only eight countries in the world which are party to ten key international conventions for combating terrorism. The United States encouraged Hungary's entry into the OECD (May 1996) and supports Hungary's bid for EU membership.

#### **B. Major Political Issues Affecting the Business Climate**

For the third consecutive time since free elections were established in 1990, Hungarians voted incumbents out of office in the May, 1998 general elections. The current governing coalition promised to continue the previous policy of fiscal responsibility, to pursue European integration, and initial ministerial appointments inspired business confidence. Global financial turbulence in the second half of 1998, and the extraordinary events of the first half of 1999 (including three cycles of flooding, and the Kosovo conflict) have made for a very difficult policy-making environment. The central government budget for 2000 will be a key indicator of whether Hungary's coalition government can make some very tough decisions on such contentious issues as tax and health care finance reform. A strong economic recovery in the EU will do much to relieve some of the pressure on Hungary's

current account, but markets would welcome some fiscal retrenchment, including a cautious approach to spending and more conservative revenue estimates.

### C. Brief Synopsis of the Political System

Hungary is a parliamentary democracy with a freely elected legislative assembly that initiates and approves legislation. The Prime Minister nominates the cabinet, and Parliament approves the choices after open hearings. Viktor Orbán, the leader of the Fidesz - Hungarian Civic Party, heads a center-right coalition government which was formed in June, 1998, with the Hungarian Democratic Forum (MDF) and the Independent Smallholders' Party (FKGP). Fidesz controls 147 of the 386 parliamentary seats, and the coalition as a whole controls 211 seats. The center-left opposition is comprised of the Hungarian Socialist Party (MSZP) and the Alliance of Free Democrats (SZDSZ). Although Hungarian election politics have evolved into a contest between center-right and center-left, in 1998 an extreme right party, the Hungarian Justice and Life Party (MIÉP) earned over 5 percent of the vote nationwide and gained parliamentary representation. MIÉP's influence during its first year in Parliament has been marginal.

## **IV. MARKETING U.S. PRODUCTS AND SERVICES**

### A. Distribution and Sales Channels

Retail and wholesale distribution is developing toward western standards in Hungary. In the past, large, state-owned monopolies controlled distribution, which was largely supply-driven. During the transition period since 1989, the monopolistic state-controlled trading companies have been privatized and/or broken up, but a smooth-working demand-driven system has not fully developed and some inconsistencies remain. Selection in size and styles, particularly in clothing and apparel, still needs to improve. However, the use of newer technologies, such as electronic data interchange (EDI), is beginning to significantly improve delivery of goods. Large-scale wholesaling is still embryonic and it is not unusual for retailing and wholesaling to be combined, sometimes even together with manufacturing. Although Hungary's retail sector now includes some larger department stores and supermarkets, small family-run stores are still quite common. Examples of foreign chains with operations in Hungary include Auchan (France), Metro (Germany), Michelfeit (Austria), Ikea (Sweden), Baumax (Germany), Humanic (Austria), Julius Meinl (Austria), Penny Market (UK), Cora (France), Marks & Spencer (UK), and Tesco (UK). A Hungarian corporation, Fotex Holding Co., has made a significant impact on the retail sector. Fotex is involved in such diversified market segments as optical, film developing, audio media, household appliances/consumer electronics, cosmetics and furniture. Recently, indoor shopping

malls have arrived in Hungary and are now rapidly expanding throughout the Budapest capital area, as well as in such major cities as Győr, Székesfehérvár, Debrecen, Miskolc, Pécs, Szeged, Kecskemét, Szombathely, Nyíregyháza, Szolnok.

#### B. Use of Agents and Distributors

The use of local agents and distributors is recommended in those instances when establishing a sales subsidiary is not feasible. The Commercial Service of the U.S. Embassy can provide a head start to firms seeking an agent or distributor in Hungary through its Agent/Distributor Service (ADS) or Gold Key program. Further information can be obtained by contacting Department of Commerce District Offices in major cities in the United States or the Commercial Service in Budapest (see contact numbers at end of this Guide).

#### C. Franchising

Selling sub-franchises, providing financing, setting lower master franchise fees or using foreign master franchisees is the key to succeeding in the Hungarian franchise market. Franchising is still relatively underdeveloped in Hungary compared to U.S. or West European standards. As a proportion of the retail sector, it lags considerably behind the United States, Japan, and the EU. However, inefficiencies in the delivery of goods and services and a developing middle class suggest that there are significant opportunities in franchising. Currently, there are about 200 franchise operations in Hungary. About half of these are foreign owned. Certain well-managed franchisers, such as McDonald's (70 restaurants), Burger King (13 restaurants), Pizza Hut (17), and Kentucky Fried Chicken (restaurants) have been rather successful. Porst (a German film developing chain), Eastman Kodak, Adidas, and car rental companies like Hertz are also well established.

#### D. Direct Marketing

Direct marketing is still in its incipient stages. Telephone and direct mail solicitations are only now being exploited, due in part to improving telephone services (including frequently changing numbers). Alternate forms of marketing such as personal presentation marketing have been successfully employed by such firms as Avon, Amway, Oriflame (Sweden) and Tupperware. With the increasing penetration of cable and satellite TV and the growing availability of credit cards, home shopping channels are targeted to a growing segment of the population.

#### E. Forms of Business

Forms of business under Hungarian law include: joint stock limited company ("Részvénytársaság or Rt."); limited liability companies ("Korlátolt Felelősségű Társaság or Kft."); general partnerships

("Közkereseti Társaság or Kkt."); limited partnerships ("Betéti Társaság or Bt."); cooperatives; sole proprietorships; and non-profit organizations ("Kht."). Sole proprietorships comprise a significant chunk (over 65 percent) of all Hungarian businesses. Foreign investors prefer limited liability companies.

Act CXXXII, currently in effect, allows the formation of branch offices of foreign companies beginning with January 1998. This act is applicable to companies established after June 16, 1998.

In addition to the forms of business described above, foreign companies may establish a Representative Office, Service Office or Information Office, which are allowed to conduct marketing and technical support but not engage in trade.

#### F. Joint Ventures/Licensing

The establishment and operation of joint ventures in Hungary has been permitted since 1972. The foundation of companies operating with foreign participation is subject essentially to the same treatment as that of exclusively Hungarian-owned companies. In 1989, the earlier licensing procedure was abolished and today it is sufficient to have the company simply incorporated in the Trade Register. Foreign investors are allowed to purchase shares in Hungarian firms up to 100 percent majority participation. Joint ventures and 100 percent foreign-owned ventures - as all businesses in Hungary - are entitled to pursue foreign trade activities.

It is also possible to establish joint ventures in duty-free zones. In Hungary, in contrast to certain other countries, there are no specific duty-free zones delineated for establishing joint ventures. The land area of any enterprise or that of plants already existing or under construction can be declared as a duty-free zone by customs authorities.

Since January 1, 1994, the establishment of offshore companies is also permitted in Hungary. Under the law on corporate taxation, offshore companies enjoy an 85 percent tax preference. An offshore company must be a limited liability company or shareholders' company registered in Hungary, and must be wholly foreign owned.

#### G. Steps to Establishing an Office

Registration of a new business entity must be applied for at the Court of Registration. A new Companies Act (Act CXLV of 1997), which came into force on June 16, 1998, is intended to substantially reduce the time required to register a new company. If the Court fails to act on the registration within 30 days for limited liability companies (Kft.) and joint stock companies (Rt.) and within 60 days for unincorporated business entities, the registration becomes effective automatically.

U.S. entities planning to set up businesses in Hungary are advised to consult with an experienced attorney and accounting firm. (Lists of law and accounting firms may be obtained from the U.S. Embassy's commercial or consular offices.) In addition, it should be noted that obtaining and renewing work and residence permits



has become increasingly onerous as the government attempts to crack down on illegal residents. U.S. businesses are urged to hire a law or accounting firm or a company that specializes in this type of work to assist with the process.

#### H. Selling Factors/Techniques

Hungarian purchasing decisions are increasingly subject to sophisticated print and electronic media techniques. Billboards and kiosks are layered with the latest ads, skewed to young people and the rising middle class, with promotions of "trendy" western lifestyles. It should be noted, however, that shoppers of all ages and lifestyles often exhibit loyalty to Hungarian products perceived to be of high quality. For mainstream Hungarian consumers, price and traditional habits (e.g., frequenting the local shopkeeper) still govern purchasing habits. Consumer campaigns, special offers and discounts are becoming increasingly common marketing practices in Hungary today.

#### I. Advertising and Trade Promotion

Most large Hungarian firms engage in some form of advertising. The most popular media (in order of preference) are television, radio, press, and outdoor billboards/signs. The Competition Law prohibits advertisements that mislead consumers or endanger the reputation of competitors. The Advertising Law passed in June 1997, liberalized advertising, including lifting a ban on advertising alcohol, tobacco and pharmaceuticals.

#### LIST OF NEWSPAPERS/PERIODICALS

##### Major Dailies:

Napi Gazdaság (Daily Economy)

1135 Budapest

Csata utca 32

Tel: 350-4349

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#### J. Pricing Issues

State subsidies and price controls for many products have been eliminated, allowing prices to be determined by market forces. Although the Hungarian Government continues to subsidize basic services such as utilities, mass transit and pharmaceutical products, recent price increases are bringing rates closer to market pricing principles. U.S. exporters should note that Hungarian consumers are price sensitive; however, an expanding middle class is taking hold and slowing inflation seems to have helped in stabilizing fluctuating consumer sensitivities.

#### K. Sales Service/Customer Support

In general, sales service and customer support has been a weak link in the area of consumer trades. However, with increasing penetration by western firms and stiffer competition for value-added services, responsiveness to customer needs and demands is growing. Operations that deal with the professional business public are implementing many new customer-oriented techniques.

#### L. Selling to the Government

The Act on Public Procurement of 1995 requires open tenders for government purchases of goods exceeding HUF 10 million (\$53,000 at the average 1995 exchange rate) and services over HUF 5 million (\$26,500). Although these requirements have led to greater transparency and fairness in government procurement, problems have surfaced in recent tenders.

An important development for defense contracts has been Hungary's offset policy. For big-ticket military purchases, such as a recently concluded missile tender and a potential fighter aircraft tender, the government requires 100 percent offset. This can take the form of direct offset, investment or export facilitation.

#### M. Protecting Your Product from IPR Infringement

In September 1993, Hungary signed a comprehensive intellectual property rights (IPR) agreement with the United States. The agreement addresses copyright, trademarks and patent protection. The U.S. government tracks the Hungarian government's enforcement on a regular basis to ensure compliance with the agreement.

Hungarian patent legislation provides protection for a twenty-year period under condition that the patent be used within four years of the date of application or three years from the date of issue. Copyright protection is extended to literary, scientific, and artistic creations, including software. Trademarks can be registered in Hungary; however, the process can take from six months to a year. Foreigners are required to appoint a local attorney to represent them. Registrations are valid for ten years and can be renewed.

U.S. companies have concerns about trademark infringements, particularly in retail clothing and food products, and appropriation of pharmaceutical patents. A major complaint with respect to IPR protection in Hungary has been the lack of enforcement, particularly in the areas of software, sound recordings, videotapes, movies, and cable TV. Another complaint is that in cases of infringement, court proceedings can be very time consuming and injunctive relief is difficult to receive.

#### N. Need for a Local Attorney/Accountant

As a standard practice, legal counsel should be retained when engaging in business in Hungary. All legal work in Hungary must be completed by attorneys who are accredited to practice law in Hungary. Many contracts require notarization as well. Several leading U.S. law firms maintain representational offices in Hungary and provide a wide range of services for their clients. An experienced accounting firm should be consulted as well. Lists of accounting and law firms may be obtained from the U.S. Embassy's commercial and consular sections.

#### O. Performing due Diligence/Checking Bona Fides of Banks/Agents/Customers

This field is in its embryonic stages in Hungary but rapidly developing with a growing need to monitor banks and/or agents and their clientele. According to a major U.S. bank, the Credit Reporting Law (Hitelintézési törvény) regulates some of the checks, but currently it is an option for a bank domiciled in Hungary to be party to this agreement. The following institutions currently provide credit checks and similar services to customers: Credit Reform Interinfo Kft. (German), Reuters, Girodat Információ-Szolgáltató Rt. and Dun & Bradstreet. The U.S. Commercial Service also evaluates the bona fides of Hungarian business entities. This service, known as International Company Profile, may be ordered from Department of Commerce District Offices in major U.S. cities.

### **V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT**

## A. Best Prospects for Non-Agricultural Goods and Services

### 1 - TRAVEL/TOURISM SERVICES (TRA)

U.S. travel and tourism firms are present in the Hungarian market through equity investments, management or licensing in several major hotels, including the Marriott, Hilton, Inter-Continental, Grand Hotel Hungaria (Best Western), Radisson Béke and Hyatt Atrium. The first apartment hotel of the Marriott chain was opened in Budapest in 1997. U.S. car-rental chains, Hertz, Budget and Avis, tour operators Tradesco Tours, Travel One, Getz and American Express are in operation in Budapest. Since the Kosovo war is over, a revival of the tourism industry is widely expected in Hungary.

Tourism is of key importance to Hungary, directly generating 10 percent of GDP and about 15-20 percent indirectly. The further development of the tourism industry will require additional investments of around \$1 billion, including a conference center for 4000-5000 people, new hotels in the countryside near thermal and medicinal bath and conversion of stately homes into hotels.

Statistical figures are in USD millions. Exchange rate: \$1 = HUF 214 (1998).

	1997	1998	1999
TOTAL SALES	2245	2504	2500
SALES BY LOCALLY-OWNED ESTABLISHMENTS	1288	1296	1300
FOREIGN SALES BY LOCAL ESTABLISHMENTS	N/A	N/A	N/A
SALES BY FOREIGN-OWNED ESTABLISHMENTS	957	1208	1200
IMPORTS FROM THE U.S.A.	162	162	190

Some of the statistics were provided by the Central Statistical Office, others are unofficial estimates.

### 2 - FRANCHISING (FRA)

Franchising is relatively new to Hungary and most market segments are underdeveloped. Franchise trade accounts for approx. 3-5 percent of retail trade turnover in Hungary, but this figure is expected to double in five years. There are about 200-250 franchise businesses operating in the country. In terms of dollar value, about half the ventures are foreign owned and half are Hungarian owned. The bulk of franchise operations in Hungary are found in the fast food sector, certain retail sectors such as clothing, photo service, copying/printing, gas stations, business services, and hotels.

Almost any type of franchise would have some potential, including automotive products and services, property management, hardware, home maintenance, parking facilities, passenger and cargo transportation, recreation and travel, rental and distribution services and convenience stores. Successful franchisers have

modified their approach to fit the realities of the Hungarian marketplace, utilizing sub-franchisees, providing financing and obtaining foreign master franchisees.

U.S. franchise involvement is dominant in the fast-food sector, e.g., McDonald's (with 70 restaurants), Burger King (8), Wendy's (2), Pizza Hut (14), and Kentucky Fried Chicken. Other U.S. franchises include Levi's, Eastman Kodak, Adidas, Lee's and Hertz.

Figures are in USD millions. Exchange rate: \$1 = HUF 214 (1998).

	1997	1998	1999
TOTAL SALES	735	870	914
SALES BY LOCALLY-OWNED ESTABLISHMENTS	441	522	502
FOREIGN SALES BY LOCAL ESTABLISHMENTS	N/A	N/A	N/A
SALES BY FOREIGN-OWNED ESTABLISHMENTS	294	348	412
IMPORTS FROM THE US	147	174	206

The above statistics are unofficial estimates based on figures provided by the Central Statistical Office and Hungarian Franchise Association.

### **3 - MEDICAL Equipment/Healthcare Technology (MED)**

The market for medical equipment is dominated by imports that account for 80-85 percent of the total market. American medical products account for 10-15 percent of the sector's total imports. The estimated average growth rate of the Hungarian medical equipment market for 1998-2000 is 3-4 percent annually.

Hungary's health care system is under-funded, still dominated by the state and administered by the National Health Insurance Fund. The Fund is supposed to be self-sustaining, based on compulsory payroll contributions from both employers and employees. Hungary has opted to retain predominantly publicly funded health system, with increasing degree of private service provision. Privatization of health services has proceeded most rapidly in the pharmaceutical and dentistry areas, where a larger share of costs has been shifted onto households. New mechanisms have been established to allow private physicians, general practitioners to act as independent contractors to public health financing agencies. Private sector development has been important for ambulatory and diagnostic services, and negligible for hospital care.

Health care in Hungary is suffering from structural imbalances. The on-going reform is reorienting the health sector from institutional toward primary care with priority given to preventative medicine and primary care.

When purchasing medical equipment, customers look for established companies with reliable after-sales service and maintenance. Institutions have more or less a free hand within their budget to

decide what to buy and where to buy. Medical products are marketed in Hungary mainly through local distributors. Leasing of medical equipment has little tradition in Hungary. Also, the Hungarian medical sector is not very receptive to purchasing used/refurbished medical equipment. Health care providers prefer to pay more for new equipment, even if it means a longer waiting time for the funds.

The best sales potential for U.S. medical equipment in the coming years are expected to be in the following areas: Cardiovascular and Nuclear medicine (diagnostic & therapy equipment); Diagnostic equipment & surgical devices; Diagnostic imaging with special emphasis on X-ray equipment; Laboratory diagnostic equipment; Health care information systems. A countrywide X-ray Machine Replacement Program started in 1998 conducted by the Healthcare Ministry. During the 4-year plan, the state is planning to buy increasingly sophisticated equipment.

The Act of Public Procurement of 1995 requires open tenders for all purchases of goods exceeding \$50,000 and for services over \$2,500. Private sector has a limited share in the Hungarian health care sector. Various municipalities own most hospitals and clinics. Only 18 national institutes and rehabilitation centers belong directly to the Healthcare Ministry. The Hungarian health care system operates on the basis of dual financing. Major investments, equipment purchases are financed by the owners or co-financed with the Healthcare Ministry from the central budget. All recurrent expenditures of the daily operations, including disposables are financed by the National Health Insurance Fund on the basis of diagnostic related group (DRG). There are no private hospital management companies in Hungary and there is only one private hospital in the country. Third country competitors include German, Austrian, Italian and Japanese firms.

Figures are in USD millions. Exchange rate: \$1 = HUF 214 (1998).

	1997	1998	1999
TOTAL MARKET SIZE	160	165	170
TOTAL LOCAL PRODUCTION	30	32	34
TOTAL EXPORTS	10	13	16
TOTAL IMPORTS	140	146	152
IMPORTS FROM THE U.S.	22	23	25

"The above statistics are unofficial estimates".

#### **4 - POLLUTION CONTROL (POL)**

In 1999, the Government of Hungary's expenditures on environmental protection are scheduled to increase to approximately \$600 million. The two largest items in the environmental budget are waste management and water protection. The driving forces for increasing pollution control expenditures are recent laws and government regulations with the aim to harmonize with EU legislation. However, in the EU's recent opinion of Hungary's preparedness for accession, the environment was singled out as an

area that badly needs to be upgraded. The National Environmental Action Plan was passed by the Parliament in 1997. Once it is enacted, annual spending on environmental protection will near the European average of 2 percent of GDP. Currently, Hungary's spending on environmental projects is low with 1.2 percent of GDP.

With the privatization of the energy sector, the chemical and pharmaceutical industries, Western investors are bringing a higher level of environmental consciousness as well as new technologies to address environmental concerns. The United States is the largest investor in Hungary. Therefore, U.S. pollution control technologies have excellent potential to penetrate the market along with the new manufacturing technologies. The Hungarian market is receptive to US pollution control equipment for its high quality. Local production is limited -- imports account for 60-70 percent of the total environmental market, including products and services. Third country competitors include Germany, Austria, and the UK.

Figures are in USD millions. Exchange rate: \$1 = HUF 214 (1998).

	1997	1998	1999
TOTAL MARKET SIZE	500	550	600
TOTAL LOCAL PRODUCTION	200	215	240
TOTAL EXPORTS	15	18	20
TOTAL IMPORTS	315	353	380
IMPORTS FROM THE US	25	28	32

"The above statistics are unofficial estimates".

## **5 - GENERAL CONSUMER GOODS (GCG)**

The Hungarian general consumer goods market continued a modest expansion in the past few years. The general non-durable consumer goods cover apparel, cleaning preparations, cosmetics, leather products (shoes, luggage and personal leather goods), food and beverages, jewelry, sporting/athletic goods, dolls and toys. Major brands such as Levi's, Liz Claiborne, Reebok, Nike, P&G, Johnson & Johnson, Colgate, Samsonite, Pepsi Cola, Douwe Egbert, Heinz, Hasbro and Mattel Toys are all represented here. New brands appear less frequently in the market than a couple of years ago but the quantity sold of branded products shows an increase. The import of general consumer goods was liberalized continuously after the economic changes in 1990 with the latest liberalization of textiles and apparel from World Trade Organization (WTO) countries at the beginning of this year. The domestic production of general consumer goods is significant too but it is mostly small private companies or family enterprises that compete with each other in terms of gaining market share. The only exception is the food and beverage market, which is ruled by large companies and cooperatives. American, German, Italian and Austrian companies have either opened up local operations and distribution outlets, or they import consumer products through domestic distributors.

General consumer goods, especially apparel, cosmetics, some food and beverage products as well as unbranded footwear still enter



the country illegally and are sold at lower than normal retail prices on the black market. Illegal sellers of such products avoid paying VAT (25 percent) and import duty (average 8-11 percent). Therefore the total market size is probably larger than represented in the table below.

Figures are in USD millions. Exchange rate: \$1 = HUF 186.6 (1997).

	1997	1998	1999
TOTAL MARKET SIZE	2850	2975	3109
TOTAL LOCAL PRODUCTION	3431	3585	3746
TOTAL EXPORTS	2977	3110	3250
TOTAL IMPORTS	2393	2500	2613
IMPORTS FROM THE US	148	154	163

The above statistics are unofficial estimates based on the Hungarian Statistical Office and Kopint-Datorg Market Research Institute publications.

## 6 - COMPUTERS & PERIPHERALS (CPT)

The size of the Hungarian IT market is estimated by International Data Corp. (IDC) to have reached USD 1.1 billion in 1998. Forecasts indicated USD 1.2 billion for 1999, USD 1.3 for 2000 and USD 1.4 billion for 2001. The IT market is expected to increase by 9-10 percent annually. Hardware sales comprised 52 percent of a USD 989 million IT market in 1997, whereas software accounted for 16.3 percent and services 31.7 percent. Hungary can be considered the most developed IT market in the East-European region (in 1998: 1.36 million PCs were in use, PC penetration: 9 percent). Forecasts indicate the sale of 214,000 PCs for the year 2000. The market share of "brand names" is about 40 percent, whereas "no name" computers represent 60 percent of the market. (Leading brand-name suppliers are Compaq 14 percent, Albacomp (Hungary) 12 percent, IBM, HP, Dell, Acer, Packard Bell, and Siemens). In 1998, the share of black market sales was still considerable at 30 percent of the total market. (Computers assembled from parts illegally imported from the Far East.) This is due to the fact that 5 percent import duty is imposed (plus 25 percent VAT) on computers and parts. The U.S. is a market leader competing with ICL, Olivetti, Bull, Siemens, Toshiba and Tulip.

Of the 6-700,000 estimated Internet users, only 70-80,000 are subscribers (dial-up) with one of Hungary's 30 commercial Internet service providers, the rest of the users have access to the Net through educational institutions, government offices, multinational companies and banks through managed leased lines. The number of Internet users doubles annually. Best sales prospects in this sector are personal computers, NT servers, UNIX servers, and data communications equipment.

The National Council of Justice coordinates and finances a USD 40 million project (JUSTICIA.NET) spread over for 5 years starting in 2000. The project aims to establish local area networks at 152 courts to be connected into a nationwide WAN. Network access to

national and international databases would be available as well as document and workflow management and spreadsheet handling.

Figures are in USD millions. Exchange rate: \$1 = 214 HUF (1998).

	1997	1998	1999
TOTAL MARKET SIZE	398	2575	2605
TOTAL LOCAL PRODUCTION	1420	3999	4175
TOTAL EXPORTS	1350	1724	1900
TOTAL IMPORTS	328	300	330
IMPORTS FROM THE U.S.	47	52	57

The above statistics are unofficial estimates based on partial data from the Central Statistical Office.

## **7 - TELECOMMUNICATIONS EQUIPMENT (TEL)**

MATÁV, the Hungarian Telecommunications Co. operated 2,671,790 lines at the end of 1998 including 70,642 ISDN channels. MATÁV invested USD 3.2 billion between 1994-1999. MATÁV services cover 80 percent of Hungary, the phone penetration in 36 of MATÁV's primary areas reaches 35.4 percent. (In 1988, it was only 8.1 percent.) Density on main lines is likely to reach 40 percent in the company's service areas by the end of 2000. The network digitalization rate is 75.7 percent. The local telephone operators (LTOs) cover the rest of Hungary operating 781,595 lines in 18 primary areas. MATÁV (owned by Ameritech and Deutsche Telecom in 59.6 percent) has the monopoly to provide long distance and international public switched services until the end of 2001, the LTOs have monopoly rights for local services until November 1, 2002. Discussions are taking place to shorten MATÁV's monopoly by one year. Public switched data transmission services are not regulated by concessions.

Mobile telephony is a fast-growing telecommunication sub-sector in Hungary. Mobile service providers experienced a much higher growth rate than anticipated: the number of subscribers reached 1.21 million as of May, 1999 and is expected to amount to 2.5 million by 2000. There are three mobile service providers in Hungary. Westel Radiotelephone Co. Ltd. was established in 1990 for a 450 MHz mobile cellular communications system (MATÁV 51 percent-Media One 49 percent). By May 1999, it had 100,000 subscribers. (Investment of USD 67 million.) In 1993, two concessions were issued for 900 MHz digital (GSM) cellular systems. Westel 900 (Media One 49 percent-MATÁV 51 percent) and Pannon GSM (a Scandinavian/Dutch/Hungarian JV) started operations in 1994. Westel 900 reached 660,000 subscribers in May 1999 with USD 334 million invested. Pannon GSM had 450,000 subscribers, having so far invested USD 500 million. On June 15, 1999 a concession on DCS 1800 MHz mobile phone service was awarded to a consortium of Airtouch/Vodafone and RWE Telliance, Germany. Antenna Hungaria, the Hungarian Broadcasting Co. will have a 20% share in the consortium and the Hungarian Post, 10%. Total investment in the coming two years will amount to USD 500-700 million. In 1999, about USD 150 million, in 2000 about USD 200 million will be spent on equipment (base stations, mobile switches, antennas etc.).

Figures are in USD millions. Exchange rate: \$1 = HUF 214 (1998).

	1997	1998	1999
TOTAL MARKET SIZE	392	343	438
TOTAL LOCAL PRODUCTION	200	202	204
TOTAL EXPORTS	43	78	85
TOTAL IMPORTS	235	219	319
IMPORTS FROM THE U.S.	40	26	30

The above statistics are unofficial estimates based on partial data from the Central Statistical Office.

## B. Best Prospects for Agricultural Products

### 1 - SEEDS

Planting seed: Hungary is a traditional agricultural exporter. In that vein it imports high quality planting seed for propagation and production. U.S. exports of vegetable, grass, forage and, in particular, field corn seed have been traditionally strong in this market. One limitation for new exporters is that the market is well established and trade linkages are solid. Exporters should be aware that market limitations exist due to Hungary's tariff rate quota system. Hungary has had legislation governing the use, registration and imports of GMO materials. The first foreign GMO varieties had been approved for trials in spring, 1999.

#### A. NAME OF SECTOR: SEED, 1,000 METRIC TONS

	1997	1998	1999
B. TOTAL MARKET SIZE	260	280	300
C. TOTAL LOCAL PRODUCTION	360	395	410
D. TOTAL EXPORTS	95	100	100
E. TOTAL IMPORTS	12	11	13
F. IMPORTS FROM THE U.S.	3	2	3

### 2 - SOYBEAN MEAL

Soybean meal: Hungary is a large producer and exporter of livestock and products. Annual consumption of soybean meal is about 500,000 metric tons. Hungarian importers have strong ties to South American soybean pellet exporters. However, the market is price sensitive. If American soybean meal is price competitive with South American pellets, Hungary will typically opt buy American.

#### A. NAME OF SECTOR: SOYBEAN MEAL, 1,000 METRIC TONS

	1997	1998	1999
B. TOTAL MARKET SIZE	522	510	530
C. TOTAL LOCAL PRODUCTION	8	10	14
D. TOTAL EXPORTS	0	0	0
E. TOTAL IMPORTS	514	500	510
F. IMPORTS FROM THE U.S.	7	10	10

### **3 - BOVINE SEMEN**

Bovine semen: Hungary's dairy industry is based on U.S. breeds. Demand for high quality bovine semen for dairy cows is strong and U.S. exports in this area are significant. One limitation for new exporters is that the market is well established and trading linkages are solid. Exporters should be aware that market limitations exist due to Hungary's tariff rate quota system.

A. NAME OF SECTOR: BOVINE SEMEN, USD MILLION

	1997	1998	1999
B. TOTAL MARKET SIZE	10.00	9.00	9.00
C. TOTAL LOCAL PRODUCTION	8.80	7.80	7.60
D. TOTAL EXPORTS	0.50	0.60	0.40
E. TOTAL IMPORTS	1.20	1.20	1.20
F. IMPORTS FROM THE U.S.	0.88	0.90	0.90

**4 - POULTRY BREEDING STOCK**

Hungary is a producer and exporter of poultry breeding stock and poultry. U.S. exports of poultry breeding stock, particularly baby chicks for chicken broiler and layer production, are strong. One limitation for new exporters is that the market is well established and trade linkages are solid.

A. NAME OF SECTOR: POULTRY BREEDING STOCK, USD MILLION

	1997	1998	1999
B. TOTAL MARKET SIZE	78.00	77.00	80.00
C. TOTAL LOCAL PRODUCTION	76.00	75.00	74.00
D. TOTAL EXPORTS	9.00	9.10	9.00
E. TOTAL IMPORTS	8.70	8.50	9.50
F. IMPORTS FROM THE U.S.	2.00	2.00	2.00

**5 - DRIED FRUITS & NUTS (INC. PEANUTS)**

Hungary has well-developed sweets, confectionery and bakery industries. Household baking is also traditional. Consumption of dried fruits (including raisins) and nuts (including peanuts) increases. Industry looks for better quality and higher value added raw materials. This means better competitive positions for the more expensive US products. Cheap developing country suppliers have well set market positions. Substantial parts of US imports are re-exported from Germany, Austria or other West European countries.

A. NAME OF SECTOR: DRIED FRUITS & NUTS (INC. PEANUTS) USD \$M

	1997	1998	1999
B. TOTAL MARKET SIZE	22.0	29.3	24.0
C. TOTAL LOCAL PRODUCTION	17.6	24.8	19.4
D. TOTAL EXPORTS	4.4	4.5	4.6
E. TOTAL IMPORTS	10.4	11.8	12.0
F. IMPORTS FROM THE U.S.	2.1	2.3	2.3

**6 - BEEF**

Low cattle numbers' and live beef cattle exports' results in absolute and quality beef shortages, in spite of low domestic consumption. Meat processors need imported beef and edible offals, hotels want high quality beef. Import tariffs, in general, are high but preferential tariffs under quota are available and may facilitate the imports of US beef.

A. NAME OF SECTOR: BEEF, 1000 MT

	1997	1998	1999
B. TOTAL MARKET SIZE	44.0	45.0	45.0
C. TOTAL LOCAL PRODUCTION	44.6	44.0	43.0
D. TOTAL EXPORTS	10.5	11.0	11.0
E. TOTAL IMPORTS	9.7	12.0	13.0
F. IMPORTS FROM THE U.S.	3.0	3.0	3.0

C. Significant Investment Opportunities

As much of Hungary's state-owned industry has been privatized, opportunities for investing by means of privatization are declining. No further large-scale privatization programs are planned. In the energy sector, the government is still discussing the method of privatization for the Hungarian Electric Works (MVM), including the Paks nuclear power plant. Some of the subsidiaries of the national railway, MAV, are being sold off. Greenfield investments as well as equity investments in private companies remain excellent opportunities in Hungary.

The government of the United States acknowledges the contribution that outward foreign direct investment makes to the U.S. economy. US foreign direct investment is increasingly viewed as a complement or even a necessary component of trade. For example, roughly 60 percent of U.S. exports are sold by U.S. firms that have operations abroad. Recognizing the benefits that U.S. external investment brings to the U.S. economy, the government of the United States undertakes initiatives, such as Overseas Private Investment Corporation (OPIC) programs, Bilateral Investment Treaty Negotiations and business facilitation programs, that support U.S. investors.

## VI. TRADE REGULATIONS AND STANDARDS

### A. Trade Policies and Barriers

Although a founding member of the World Trade Organization (WTO), Hungary has not always had the best reputation for free and unencumbered trade policies. However, the country's record has improved significantly during the past 5 years. Hungary's average most-favored-nation (MFN) duty rates have been gradually decreased, from 13.6 percent in 1991 to about 8 percent in 1998. An 8 percent duty surcharge that was introduced in March 1995 was eliminated on July 1, 1997. Furthermore, under WTO rules, Hungary will eliminate quotas on textiles, clothing, and other industrial products by 2004. From January 1, 1998, import licenses are no longer required for imports originating in WTO member states in the following product areas: new vehicles with an engine capacity greater than 1500 cc, apparel, medicine, used clothes, string and thread, carpets, and those types of radio receivers not produced in Hungary.

Hungary's Trade Association Agreement with the EU, which became effective in February of 1994, provided for an asymmetrical liberalization of trade over the next 5 years. Tariffs for industrial products imported from the EU and Central European Free Trade Association (EFTA) countries are being gradually eliminated by the end of 2001. At the Copenhagen summit conference in 1994, further EU concessions were announced which exempted over 90 industrial products from customs duties and quotas beginning January 1, 1995 (2 years before it would have been officially required by the Association Agreement).

U.S. companies, particularly exporters, have recently raised concerns about the competitive impact of potential trade disparities between EU-origin and U.S.-origin goods. The U.S. Embassy and the Office of the USTR are currently reviewing the situation with respect to possible reverse preferences for EU products. One of the most important developments influencing trade between the EU and Hungary has been the so-called Pan-European Cumulation System (PECS), comprising a set of EU bilateral agreements, which aims to harmonize standards and rules-of-origin laws between the EU, European Free Trade Area (EFTA), CEFTA, and other countries on the periphery such as the Baltic States (a total of 29 countries). The Government of Hungary joined the PECS on December 28, 1996, with an effective date of July 1, 1997. Under the PECS, companies that import inputs from outside the cumulation area must pay duty in order to take advantage of free-trade preferences when exporting their finished goods to PECS countries. If, on the other hand, the importer opts to receive a so-called duty drawback (credit for duty paid when the input is imported), eligibility for preferences is lost and the finished product must be exported on the standard MFN basis.

Hungary's trade agreements with the EU, EFTA, and CEFTA member states traditionally set the rate of local content requirement at 50 percent for industrial products to qualify for preferential treatment. However, under the new regulations on certificates of origin (the so-called "diagonal rule-of-origin cumulation"), if raw materials and/or components originating in any of these

countries are processed in Hungary and then re-exported to EU territory, the value of raw materials and components will be considered local content.

Hungary maintains a global quota on imports of consumer goods. Some U.S. firms have complained that they have been unable to obtain sufficient quotas to properly supply the market in certain product categories. Many such cases have been handled successfully on a case-by-case basis.

The Customs Law, passed in late 1995, eliminated duty-free importation of capital goods by foreign-owned companies. The law was intended to place domestic investors on an equal footing with non-Hungarian investors, but likely eliminated a prior incentive to invest in Hungary.

Non-tariff barriers in Hungary include lack of transparency with respect to the creation and application of laws and regulations. Furthermore, the absence of a prior notice or review period often leaves companies with little opportunity to influence the outcome or plan ahead. Several government procurements have resulted in unsuccessful tenders, been challenged in court for technical violations, or prompted complaints that they were politicized.

#### B. Customs Valuation

Customs Valuation is on an ad valorem basis. However, U.S. firms have complained that the value of imported products is not always accurately assessed. The Customs Law declares the principle of the prompt payment of the "customs debt." Customs debt comprises the customs duty assessed, the general turnover tax (VAT) - usually 25 percent of value, the consumption tax, any statistical fees and the customs clearance fee (1 percent on goods originating from GATT member countries), and any miscellaneous fees such as road fund contributions and/or environmental protection fees. The customs debt is due and payable within 5 business days following notification thereof.

#### A. Import Licenses

An estimated 90 percent of imported products no longer require an import license; however licenses are still required for some consumer goods (those subject to quota), including automobiles, and textiles. Products which are typically controlled in the United States and other western countries such as arms/ammunition, military equipment, hazardous materials, materials for biological weapons, psychotropic products, nuclear products and uranium ore are similarly controlled in Hungary.

Beginning with January 1, 1998, Hungary implemented large-scale liberalization with respect to the importation of certain industrial products pursuant to the Europe Agreement concluded with the EU. Hungary's obligations were met by reducing tariffs on new automobiles with an engine size larger than 1,500cc, transmitter and reception devices, baby food, human nutritional additives and non-woven coated textile products not manufactured in Hungary.



#### D. Export Controls

Most high-tech western technology can flow to Hungary without export licenses. However, some equipment (e.g., dual-use technology and defense products) still requires export licenses from the Bureau of Export Administration (U.S. Department of Commerce), Department of State and/or Department of Defense.

#### E. Import/Export Documentation Requirements

All importers and exporters must file a VAM 91 document, which can be obtained from Hungarian Customs. Essentially, this document serves as a declaration for the type and number of goods being imported or exported. This document must contain the Product Code Number, which identifies the classification of the goods. The Product Code Number can be obtained from the Central Statistical Office.

For consumer distribution, the importer must have a certification document from the Commercial Quality Control Institute (KERMI); goods cannot be custom-cleared without the KERMI permits. Other products destined for industrial production, such as raw materials, will need a waiver of certification. With reference to certain consumer products, KERMI may permit documentation from other testing and certification agencies such as the National Institute for Drugs and the Quality Control Office of the Building Industry.

Finally, those products whose trade is still controlled by the government (see above) require the appropriate license from the Ministry of Economics.

#### F. Temporary Entry

Products may be brought into Hungary on a temporary basis for exhibition in trade fairs or as samples. U.S. exporters can obtain a carnet from their local Chamber of Commerce (the carnet is good for 1 year). The carnet lists the products and provides duty-free entry. An alternative method is to post a bond with Hungarian Customs equivalent to the duties to be paid on the product. The amount is then refunded once the product has been validated as having left the country. Goods -- typically materials or parts/accessories -- which are brought into Hungary for re-export after additional processing may enter duty-free. The Hungarian company must demonstrate that it has a contract with a foreign company that commissions the work. Customs will issue a temporary import permit. In some cases, Hungarian Customs may request a deposit for customs duties. There are procedures for duty refunds on re-exports but these can be complicated.

#### G. Labeling, Marking Requirements

Strict rules apply to labeling and marking of food, cosmetic and household products. The rules apply to both domestic and imported products. The primary requirement for food is that labeling information must be in Hungarian. The label must give the following information: net quantity, name/address of producer (or importer), consumption expiration date, recommended storage

temperature, listing of ingredients/ additives, energy content and approval symbols from the National Institute of Food Hygiene and Nutrition (OETI) and, or the Commercial Quality Testing Institute (KERMI).

Cosmetics, which are regulated by OETI, should indicate: product denomination, function, handling (precautionary) instructions, production date, utilization expiration date, quantity of product, producer/importer information. There are specific marking and labeling requirements for human and animal pharmaceuticals.

Some American firms have complained about high fees and slow processing to obtain approvals from OETI and KERMI.

#### H. Prohibited Imports

According to section 186/a 1994 of the Hungarian Gazette, Hungary does not prohibit the importation of any product. However, special permits are required for the importation of such items as endangered species, plants, environmentally hazardous products, and certain drugs.

#### I. Standards

There are currently two types of standards: national and sectoral. National standards are issued by the HSO and conform to international norms. Hungary is a signatory to the GATT Agreement on Technical Barriers to Trade (Standards Code) and of course, its successor, the WTO. Hungary is also a participant in the International Standardization Organization (ISO) and the International Electro-technical Commission (IEC). Sectoral standards are issued by individual ministries and other central government agencies. As noted above, goods for consumer distribution are subject to an approval process by the Commercial Quality Control Institute (KERMI) and/or the Hungarian Electro-technical Control Institute (MEEI) which is responsible for electronic/technical goods. In order to import or market such electronic consumer products, samples must be submitted to these control institutes for testing and certification. Without appropriate certification, imported products will not be custom-cleared.

#### J. Free Trade Zones/Warehouses

Since 1989, Hungary's rules for establishing free trade zones (FTZ) have been relatively liberal. Consequently, many large exporters conduct trade through FTZs (otherwise known as "punto franco" using the Italian designation) that are located near manufacturing or assembly facilities. However, under pressure from the EU, the FTZ regime has recently been tightened up. One of the largest FTZ concentrations is located at Székesfehérvár, where subsidiaries of Ford Motor Co., Philips Electronics, IBM, Loranger, and Alcoa are located.

#### K. Membership in Free Trade Arrangements

In December 1991, Hungary signed an Association Agreement with the European Union, which became effective in February 1994. The

agreement was meant to phase out tariffs over an extended period of time. The agreement immediately removed EU duties on 70 percent of Hungary's industrial exports to the EU and lifted quotas on 60 percent of its total exports. Trade in textiles, steel, coal and farm products will be eased over several years. In June 1993, the EU agreed to accelerate the agreement's provisions and reaffirmed its commitment to Hungary's full membership. Although there is no real opposition, either internally or externally, for Hungary's membership in the EU, timing is uncertain. Membership is not expected before at least 2002. On February 15, 1991, the leaders of Czechoslovakia, Hungary, and Poland signed a declaration at a summit in Visegrád, Hungary, pledging cooperation on matters of common concern, particularly with respect to regional trade issues. In December 1992, Czechoslovakia, Hungary and Poland negotiated a Central European Free Trade Agreement (CEFTA). Following the dissolution of Czechoslovakia and the formation of the Czech and Slovak Republics, both countries automatically acceded to the Agreement. Modeled after the structure of the EU association accords, CEFTA reduces trade barriers over an 8-year period; duties on 15-30 percent of mutual trade were eliminated immediately upon implementation of the Agreement in March 1993. A supplementary agreement, signed on June 18, 1994, accelerates the agreement's provisions. Since then, Slovenia and Romania have acceded to CEFTA. About 90 percent of all industrial products are currently traded free of duty between members under the Agreement.

Hungary concluded a free trade agreement with the European Free Trade Association (EFTA) countries in July 1993. Again, this agreement was modeled after the EU accords and eliminated trade barriers for Hungarian goods that entered the EFTA countries by 1997 and will eliminate barriers for EFTA imports by 2001. EFTA accounts for nearly 15 percent of Hungary's total trade. Hungary is negotiating with the EU to ensure that Hungary does not lose any benefits as a result of EFTA countries joining the EU.

In July 1997, Hungary acceded to the Pan-European Cumulation System. Comprised of 29 countries, mostly EU-, CEFTA- and EFTA-member countries plus the Baltic states and Bulgaria, the system imposes certificate-of-origin rules on member countries governing qualification for preferential trading status. Companies that import inputs from outside the cumulation region must pay duty in order to take advantage of free-trade preferences when exporting the finished good to countries within the region. If, on the other hand, the importer opts to receive a so-called duty drawback (credit for the duty paid when the input is imported), eligibility for preferences is lost and the finished product is exported on most-favored-nation basis. Maximum duty rates and exemptions have been allowed during a transition period to mitigate the effects of the new regime.

## **VII. INVESTMENT CLIMATE**

### **A.1. Openness to Foreign Investment**

Hungary attracted \$19.7 billion in foreign direct investment from 1989 to 1998. Hungary received almost one-third of all FDI invested in Central and Eastern Europe during this period. In

1998, \$1.9 billion in FDI flowed into the country, a pace that is expected to continue in the medium term. With more than \$7 billion invested, U.S. firms continue to be Hungary's biggest investors, and a number of U.S. companies have expanded operations in Hungary through reinvestment. The current environment in Hungary encourages foreign investment and participation in virtually all aspects of the private economy; in turn, 30,000 foreign companies have established operations. (See Appendix D; Table 1: Major Foreign Investors in Hungary)

FDI in Hungary was jump-started by the extensive cash privatization of state assets to foreign strategic investors. The most recent privatization law (June 1995) and a later amendment (February 1997) accelerated privatization while making it more transparent. The State Privatization and Holding Company (APV) manages and sells state-owned properties, with Ministry of Finance approval on issues concerning the banking sector. Continued state ownership consists of three components: small minority share holdings that carry no use for the government, and will likely be sold; golden shares in 27 important concerns, which give the government an advisory role and weak veto power on major management decisions, but no influence on day-to-day running of the firm; and majority ownership in 92 firms for which privatization decisions have not been made. Some 60 percent of these are numerous small firms in a single sector, such as regional bus companies, which will likely be sold in the next ten years.

FDI has so far been concentrated in Western Hungary and in Budapest, due to more developed infrastructure and proximity to the European Union. However, eastern Hungary offers a well-trained workforce and a long tradition in industry, agriculture, and research; there are also special incentives for doing business in Eastern Hungary (see A.5. below).

Foreign investment in Hungary typically takes one of four forms: establishing a new (greenfield) business; entering into a joint venture; obtaining equity in a state enterprise through privatization; and making a portfolio investment or participating in a capital increase. Local subsidiaries are typically incorporated as a limited liability company (known by its Hungarian abbreviation Kft). Other commonly used forms are joint stock companies (Rt.), joint ventures, business associations, general and limited partnerships, and sole proprietorships. Many foreign companies operate through representative offices, and establishing branches has become easier under the revised Branching Act effective January 1998.

Act 24 of 1988 (as Amended) on Investments of Foreigners in Hungary (the "Investment Act") governs the establishment and operations of companies with foreign participation, and grants significant rights and benefits to foreign investors. It guarantees national treatment for foreign investments and abolishes the general requirement of government approval. It also provides protection against losses resulting from nationalization, expropriation, or similar measures, and guarantees free repatriation of invested capital and dividends.

Foreign ownership up to 100 percent is permitted with the exception of designated "strategic" holdings as mentioned above, some defense-related industries, and the national airline MALÉV. Since July 1996, government approval is not needed for foreigners to invest in financial institutions and insurance (only official notification). As of 1 January 1998, foreign financial institutions may operate branches and conduct cross-border financial services, in keeping with Hungary's commitments at the time of its OECD accession in May 1996.

Foreign-owned companies that are Hungarian legal entities may acquire real estate, with the exception of agricultural land. Under the Investment Act, a company incorporated in Hungary may only acquire real estate "required for its economic activities," however, this has not prevented U.S. and other foreign entrepreneurs from engaging in property development. The Land Law (Act 4 of 1994) restricts the purchase of land by foreigners to 6,000 square meters, but allows for leases up to 10 years for up to 300 hectares.

Only Hungarian natural persons can purchase arable land at present. The liberalization of restrictions on arable land ownership was derailed in 1997 by a vocal opposition campaign. Proposed legislation would have allowed any company registered in Hungary (regardless of ownership) to buy land for agricultural use within the same county where its headquarter is domiciled, provided it had been engaged in agriculture for at least five years. Hungary must lift restrictions on foreign land ownership as part of accession to the European Union.

#### A.2. Conversion and Transfer Policies

The Hungarian forint (HUF) became convertible for essentially all business transactions within Hungary on 1 January 1996 and complies with IMF Article VIII and OECD convertibility requirements. As of July 1999, one USD equaled approx. HUF 240. The forint is not actively traded outside Hungary, but futures markets in Budapest allow investors to hedge exchange risk against the USD and other major currencies. The forint exchange rate is managed via a crawling peg to a basket composed of the Euro (70 percent) and the U.S. dollar (30 percent). Currently this peg is devalued at a preannounced rate of 0.5 percent per month (0.4 percent from October 1, 1999). It will be replaced by a pure Euro peg starting in 2000.

The Investment Act guarantees foreigners the right to repatriate "in the currency of the investment" any dividends, after-tax profits, royalties, fees, or other income deriving from the operation or sale of the investment. The Act also grants foreign employees of a foreign investment the right to transfer all of their after-tax salaries. There are no onerous foreign exchange requirements, and there are no reported instances of delay in repatriations.

The Hungarian Government has gradually eliminated nearly all restrictions on long-term capital account transactions. As of 1 January 1998, restrictions were eliminated on (a) non-resident purchase of collective investment securities to open-ended

investment funds, (b) resident firm acceptance of foreign credits or loans in excess of USD 50 million, (c) resident firm loan payments abroad, (d) resident persons borrowing abroad, and (e) resident investments in instruments of OECD-based issuers of less than investment grade. Restrictions remain on non-resident investments in instruments with less than one-year maturity.

Foreign investors may keep export receipts and other cash contributions in convertible currencies in a foreign exchange account. The company may use these funds to import, duty-free in some circumstances, goods considered as part of the investment. Alternatively, it may import goods using foreign exchange bought in HUF.

In 1998, the Hungarian National Bank recorded capital outflow of \$962 million. Outflows have increased consistently since the early 1990s reflecting the liberalization of capital controls and, in 1998, repatriation of the profits of some earlier investments.

#### A.3. Expropriation and Compensation

There has been no substantial expropriation of foreign-owned assets since the initial communist takeover, though claims from the initial period have arisen since 1989. Following the change of regime in 1990, the government began a compensation program for persons who lost property under the fascist and communist regimes. These Hungarians and foreign citizens were eligible to receive compensation coupons that could be sold or exchanged for privatized shares, real estate or annuities. In April 1997, Parliament passed a Jewish Compensation Program that returns property stolen from Jewish victims of Nazism and Communism. Under this law, some property, as well as monetary compensation, is designated for the Jewish Public Heritage Foundation and Jewish victims of the Holocaust.

#### A.4. Dispute Settlement

Hungary will accept binding international arbitration where conciliation of disputes between foreign investors and the state is unsuccessful. Hungary is a member of the International Center for the Settlement of Investment Disputes (ICSID), also known as the Washington Convention. It is also a signatory of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

#### A.5. Performance Requirements/Incentives

Hungary does not impose performance requirements as a condition for establishing, maintaining, or expanding an investment. There are no government-imposed conditions on investment, whether location in specific geographical areas, local content or ownership, substitution for imports, export requirements or targets, employment of host country nationals, technology transfer, or source of financing.

In 1994, Hungary replaced its blanket tax incentives for foreign investment with incentives open to all large investors, based on export promotion, reinvestment of profits, and job creation

(companies that qualified for tax abatements prior to 1994 retained their benefits under court rulings). Tax incentives reward investment to underdeveloped regions, primarily in eastern areas of the country. Other incentives include interest-free loans (repaid over five years) and/or partial reimbursement for high technology imports, research and development, quality assurance (ISO and QS certifications), and trade promotion costs. Incentives are subject to change, and some are limited by fiscal allocations.

The Hungarian Investment and Trade Development Agency (ITD) can provide information and other support. In June 1999, the ITD and the U.S. Department of Commerce signed an agreement to improve support for U.S. trade and investment.

In the fall of 1998, U.S. Ambassador to Hungary Peter Tufo launched the "U.S.-Eastern Hungary Partnership." Under this pilot program, the Embassy has opened commercial offices in the cities of Debrecen, Miskolc, and Nyíregyháza. These offices, administered by the U.S. Department of Commerce, can help organize contacts for U.S. companies and locate information on related issues.

#### A.6. Right to Private Ownership and Establishment

The Hungarian constitution guarantees the right to private ownership and provides other related guarantees. Foreign and domestic private entities may establish and own business enterprises and engage in all forms of remunerative activity, except those prohibited by law. Hungarian law guarantees the right of private entities to freely establish, acquire, and dispose of interests in business enterprises.

Private enterprises enjoy competitive equality in markets, business licenses, supplies, and credit access. In 1998, about 80 percent of Hungary's GDP was reportedly produced by the private sector, a remarkable turnaround from 1990 when the private sector accounted for less than a quarter of economic output.

Registering a company in Hungary has become easier with the new Companies Act that came into force in June 1998. It compels registry courts to process applications to register limited liability (Kft.) and joint-stock (Rt.) companies within 30 days (60 days for unincorporated business entities). After this period, if the registry court does not act, a new company is automatically registered. The Act eliminates the need for separate registrations at the tax and social security authorities; a single registration will suffice. The Act also increased minimum capital requirements for limited-liability companies (from HUF 1m to HUF 3m) and joint-stock companies (from HUF 10m to HUF 20m), the first such increase since 1989.

Strong bankruptcy laws help protect investors in their dealings with Hungarian firms. The Act on Bankruptcy Procedures, Liquidation Procedures and Final Settlement, as amended in 1993, encompasses all commercial entities except banks (which have their own regulatory statutes), trusts, and state-owned enterprises. Bankruptcy proceedings can be initiated only by the debtor and only if the debtor has not sought protection under bankruptcy in the past three years. Within 90 days of seeking bankruptcy

protection, the debtor must call a settlement conference to which all creditors are invited. Majority consent of the creditors present is required for all settlement plans. If agreement is not reached, the court can order liquidation. The Bankruptcy Act establishes the following priorities of claims: 1) liquidation costs; 2) secured debts; 3) claims of individuals; 4) social security and tax obligations; and 5) all other debts. Creditors may request the court to appoint a trustee to perform an independent financial examination. The trustee has the right to challenge, based on conflict of interest, any contract concluded within 12 months preceding the bankruptcy.

#### A.7. Protection of Property Rights

The Hungarian constitution and legal system provides strong protection for owners of real property, and protection of intellectual property has been strengthened, but needs further improvement. The United States and Hungary signed a Comprehensive Bilateral Intellectual Property Rights Agreement in 1993. The agreement addresses copyright, trademarks and patent protection. The U.S. government tracks the Hungarian government's enforcement on a regular basis to ensure compliance with the agreement. In April 1999, Hungary was cited on the "Watch List" of the Special 301 review, citing U.S. industry concerns over copyright infringement and other regulatory issues. Hungary must come into full compliance with the WTO TRIPS agreement no later than January 1, 2000. This includes protection for pre-1974 sound recordings--which a new Copyright Law is expected to provide. Hungary must also adopt adequate protection for confidential data that companies submit to regulatory authorities.

Industrial property and copyright legislation in effect since July 1, 1994 extends protection for products (previously, Hungary issued only process protection), defines who controls the rights of works, extends and unifies the terms of protection, provides the legal means to prevent proprietary information from being disclosed or acquired without the consent of the trade secret owner by other than "honest commercial practices," and ensures that enforcement procedures are available under civil, criminal or administrative law to permit effective action against IPR infringement.

Hungary has copyright laws that largely conform to international standards. The 1993 IPR agreement recognizes an exclusive right to authorize the public communication of work, including to perform, project, exhibit, broadcast, transmit, retransmit or display; it also requires that protected rights be freely and separately exploitable and conferrable (contract rights), and recognizes an exclusive right to authorize the first public distribution including importation for protected works.

Patent protection in Hungary covers the use, sale, offering for sale, and import of a patented product or products made using a patented process. The definition of infringement has been extended to "supplying the means" so that a person who sells or offers to sell the means of producing a patented product may be sued if that person is proven to have known that the means can be used for infringement.



The application process for a patent can take from six months to a year. Under a revised Patent Act effective 1 January 1996, patentable inventions are those which are novel and capable of industrial application. The term of the patent is 20 years from the filing date. A six-month grace period was adopted and disclosure of an invention in breach of confidence is disregarded when considering the novelty of an invention. The Act also includes the principle of exhaustion of rights, a provision concerning compulsory licensing of patents, and a number of procedural modifications. The law conforms to the guidelines of the European Patent Convention. Act 39 of 1991 protects the topography (layout design) of semiconductor chips.

#### A.8. Transparency of the Regulatory System

Although much Hungarian regulation of business, including competition laws, already conforms to EU regulations, a lack of regulatory and legal transparency is a common complaint of U.S. companies doing business in Hungary.

Some employers complain that social security and unemployment contributions are too high and that tax compliance is costly. Hungary continues to have high individual income taxes, but the highest bracket was reduced from 48 percent to 43 percent in January 1997. However, corporate tax is low (18 percent). Hungary and the United States have a double taxation treaty that reduces some income and corporate tax obligations for U.S. taxpayers.

Companies also pay a general turnover tax (VAT) of up to 25 percent on many business expenses, but can only reclaim VAT paid to the extent that they offer a VAT-taxable product or service within Hungary, a problem for foreign companies in some sectors.

Foreign companies operating in regulated-price sectors, particularly energy and pharmaceuticals, have experienced difficulty in realizing profits, due primarily to administrative delays in adjusting prices to reflect inflation, the devaluation of the forint, and (in the case of energy producers) contractual stipulations of cost-plus-eight percent return.

#### A.9. Efficient Capital Markets and Portfolio Investment

Hungary attracted \$1.983 billion of net portfolio investment in 1998.

Hungary's banking system has gone through a remarkable transformation in recent years from money-losing state-owned monoliths to private enterprises and a strong presence of foreign financial institutions. More than two-thirds of Hungary's banks are fully or partially foreign-owned.

Hungary implemented a major bank reform in 1987, creating a two-tiered system by separating commercial banking from the National Bank of Hungary (MNB). However, the state-owned banking sector remained highly concentrated. From the early 1990s to 1995, the Hungarian government gave over \$4 billion in subsidies to state-owned banks to cover bad loans and prepare them for privatization.

The privatization of Hungarian banks began in 1994 after some delay. In 1995 the government forced the merger or liquidation of small loss-making banks, and began to sell the larger banks. The only ongoing state intervention in the banking sector concerns Postabank, whose troubled portfolio required a government takeover and bailout in 1998.

The five largest banks in Hungary in 1998, by total assets, were:

1. OTP - National Savings and Commercial Bank (HUF 1,635 billion)
2. MKB - Hungarian Foreign Commercial Bank (HUF 604 billion)
3. K and H - Commercial and Credit Bank (HUF 516 billion)
4. CIB Bank (HUF 388 billion)
5. Postabank (HUF 377 billion)

Capital has become more readily available for businesses, due in part to greater foreign presence, falling interest rates and greater competition. However, borrowing rates remain prohibitive for many small and medium-size enterprises (SME's), with lending rates as high as 11 percent over current (decelerating) rates of inflation. Foreigners have greater access to capital outside the country, and at better rates than those available in Hungary. The number of foreign banking subsidiaries has grown and they have won many of the most attractive clients. Foreign investors have equal access to credit on the local market, the only exceptions being special governmental credit concessions, such as small business loans, and international financial organizations which may lend only to Hungarian businesses.

Hungary has made great strides in modernizing its financial sector. In January 1997, two new important banking laws came into effect. The Law on State Money and Capital Market Supervision Act (1996/64) merged the State Securities and Stock Exchange Commission and the State Banking Supervision into the Bank Supervisory Board. This new board exercises control of the operation of general and specialized credit institutions, financial enterprises, securities companies, investment funds and the stock and commodity exchanges.

The Law on Credit Institutions and Financial Businesses Act (1996/62) tightened rules on securing safe operation of the financial sector and harmonizes Hungarian laws with EU standards. It also allows for the introduction of universal banking.

Foreigners do not need a government license to establish bank subsidiaries or to establish more than a 10 percent stake in existing banks. Foreign or Hungarian credit institutions, insurance institutions, and investment companies may own up to 100 percent of a financial institution in Hungary. However, the upper limit for a single owner (foreign or Hungarian) not falling into one of the above categories is 15 percent, stricter than EU norms. Since January 1998, foreign banks may establish bank branches and offer cross border financial services.

Foreign-owned subsidiaries often have a competitive edge over Hungarian banks in customer service, although Hungarian banks have recently been able to develop and to promote retail instruments to service their clients. Hungary's retail sector is still largely a

cash-based economy and checks are not generally used, although ATM machines have become widespread and credit card use is becoming more common, particularly in Budapest. Many institutions already conduct network banking through the Giro credit transfer system.

The Budapest Stock Exchange (BSE), the first to reopen in the former socialist countries of Central and Eastern Europe, was formally reestablished in 1990. The Offering of Securities, Investment Services and the Securities Exchange Act (1996/61) and the Securities and the Stock Exchange Act (1990/6) govern public issuing and trading of bonds, shares and other securities. The BSE has 55 members, which are licensed-broker or broker-dealer companies, including several U.S.-based firms. As of May 31, 1999, the total BSE market capitalization was \$25.8 billion, having virtually doubled in each of the past two years.

Foreign investors can buy all forint-dominated government bonds with maturities of 12 months or longer, either directly from the government or on the secondary market. Before issuing a bond, the National Bank decides whether to allow foreigners to buy bonds of less than 12-month duration. This law does not apply to treasury bills issued with maturities of one, three, six and twelve months, which foreigners can buy without restriction.

#### A.10. Political Violence

Violence is not part of the traditional political landscape in Hungary. The transition from communism to democracy was negotiated and peaceful, and three peaceful changes of government via the ballot box have since occurred. There is little cause to expect insurrections, political terrorism, or interstate war. There has been no violence directed at foreign-owned companies.

Since 1994, there have been several dozen bombings centered in Budapest, including attacks directed at political parties. However, casualties and damage have been limited, and attacks have tapered off in recent months.

#### A.11. Corruption

Corruption is not pervasive or institutional on the government level, although some foreign companies have complained about incidents of corruption or illicit influence in government administration. Taking bribes is a criminal offense, and media scrutiny is high.

The Hungarian Parliament passed conflict of interest legislation in early 1997 that restricted members of Parliament from serving as executives of state-owned companies. Hungary signed the OECD Anti-Bribery Convention in December 1997, and incorporated its provision into the Penal code with effect as of May 1, 1999.

#### B. Bilateral Investment Agreements

Hungary and the United States do not have a Bilateral Investment Treaty, nor are the two countries currently in negotiations. As members of OECD and WTO, both countries have been active participants in the negotiations for a multilateral agreement on

investment.

Hungary has bilateral investment agreements with the following countries: Albania, Argentina, Australia, Austria, Belgium, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Great Britain, Greece, Holland, Indonesia, Israel, Kazakhstan, Kuwait, Luxembourg, Malaysia, Moldova, Norway, Paraguay, Poland, Portugal, Romania, Russia, Singapore Slovakia, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, the United States, Uruguay and Vietnam.

Hungary has tax agreements with the United States and with the following other countries: Albania, Argentina, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Finland, the Former Yugoslavia, France, Germany, Great Britain, Greece, Holland, India, Indonesia, Ireland, Israel, Italy, Japan, Kazakhstan, Kuwait, Luxembourg, Malaysia, Malta, Moldova, Mongolia, Norway, Italy, Pakistan, Poland, Romania, Russia, Singapore, Slovakia, South Korea, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, Tunisia, Ukraine, Uruguay and Vietnam.

#### C. OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) has been operational in Hungary since October 1989. OPIC offers U.S. investors insurance against political risk, expropriation of assets, damages due to political violence, and currency inconvertibility. It can also provide specialized insurance coverage for certain contracting, exporting, licensing, and leasing transactions undertaken by U.S. investors in Hungary. Political risk insurance is also available for foreign-owned companies in Hungary from several private carriers in the United States and Western Europe, and from the Multilateral Investment Guarantee Agency (MIGA), a World Bank affiliate. The National Bank of Hungary, for a fee, will guarantee the Investment Act's commitments regarding expropriation and profit repatriation to a foreign-owned company.

#### D. Labor

Hungary's civilian labor force (4.2 million persons) is overall highly educated and skilled. The literacy rate in Hungary tops 98 percent. About two-thirds of the work force has completed some form of secondary, technical, or vocational education. Hungary is particularly strong in engineering, medicine, economics, and the sciences. Many foreign investors have praised the productivity, motivation and adaptability of Hungarian workers. More and more young people are attending U.S. and European-affiliated business schools in Hungary. Foreign language skills are becoming more common, especially among younger Hungarians, who mainly learn English and/or German as second languages.

The Hungarian labor code guarantees employees the right to form or join trade unions and gives unions the right to operate inside a company. Unions are entitled to conclude collective bargain agreements. The labor code limits the work day and overtime (to 12 hours); guarantees maternity leave, at least 20 days of annual

leave, at least 30 days notice, and severance pay for those employed at least three years. The law also forbids discrimination based on gender, age, or nationality. The minimum employment age is 16 years, with the exception of apprenticeships, which may begin at the age of 15. Hungary adheres to ILO conventions protecting worker rights.

#### E. Foreign Trade Zones/Free Ports

Foreign investors may set up operations or acquire interest in companies within a duty-free foreign trade zone. The zone is considered foreign territory for customs, foreign exchange, and foreign trade regulation purposes. While companies within the zone are legally considered to be foreign companies, they are required to keep their accounts and conduct most of their transactions in foreign currency and establish a forint account at a local bank to meet expenses (such as taxes and wages) that the Act specifies must be paid in local currency. However, these zones may be phased out as part of Hungary's accession to the European Union.

Under the Pan-European Cumulation System and Pan-European Free Trade Zone, effective in Hungary since 1 July 1997, customs duty paid on goods imported from outside the zone and subsequently exported under preferential trade agreements is no longer refunded. However, content from any member state can accumulate to qualify for preferential treatment. Hungarian authorities have sometimes shown flexibility in addressing the customs and tariff issues of some investors.

### **VIII. TRADE AND PROJECT FINANCING**

#### A. Description of the Financial and Banking System

Despite the backdrop of a highly regulated and largely fee-driven European banking system, particularly when juxtaposed with its counterpart in the United States, the Hungarian banking sector has undergone a remarkable transformation during the past decade. It has emerged from a money-losing state-owned monolith to a largely privately owned service sector that has built a more customer-friendly appeal and began to realize some net gains. While its standards continue to lag behind the services U.S. banks offer, the Hungarian banking sector nonetheless is beginning to approach the quality of service and the variety of products offered by EU banks.

As early as the end of the 1980s, the Hungarian banking and financial sector emerged as the most developed such sector in Central and Eastern Europe. However, signs of the system's relative maturity dates back to the mid-70s and includes the following:

- The Hungarian National Bank (MNB) has been an active borrower in the European and Japanese bond markets since the beginning of the 1970s.
- Hungary joined the IMF and World Bank in 1982.
- In 1987, Hungary was the first country in the socialist block

to establish a two-tier banking system.

- The Budapest Stock Exchange (BUX) was the first Western-style securities exchange to operate in Central and Eastern Europe. It was re-opened in 1990 after its closure in 1948.

By 1999, foreign ownership in the Hungarian banking sector reached 70 percent. Despite quick penetration by foreign investment in the sector, there are only two banks with major U.S. participation in the Hungarian marketplace today. They are Citibank and Budapest Bank, the latter of which is owned partially by GE Capital. While Citibank's capital exposure in Hungary is about \$616 million making it the 11<sup>th</sup> largest bank in Hungary, Budapest Bank is ranked in the top ten with approximately \$1.3 billion in assets.

As capital flows to Hungary outpaced all other countries in Central and Eastern Europe during the 1990s, the BUX closed an impressive year in 1997. Its market capitalization increased by 54 percent, which ranked as the third best performance worldwide. With external pressures on world markets, such as the Asian crisis, the Russian collapse, and the Brazilian devaluation, the BUX suffered a setback in late 1998, but is currently beginning to show signs of a cautious recovery.

#### B. Credit institutions

Hungary implemented a major bank reform in 1987, creating a two-tiered banking system by divesting commercial banking from the National Bank of Hungary (MNB). After the 1989 transition to a market economy had begun, and particularly during 1990-1995, the Hungarian Government committed over \$4 billion in subsidies to the ailing state-owned banking sector to cover bad loans and prepare them for privatization. Actual privatization of Hungarian banks began only in 1994 after some delay. However, as a result of the Hungarian Government's steadfast commitment to this process and the country's improving economic risk status, foreign participation in privatization occurred rapidly. By the end of 1998, nearly three-fourths of the entire banking sector was in private ownership.

The legal framework in which the Hungarian banking system operates is continually changing. New modifications, in line with the legal requirements of the European Union and the OECD, include the following:

- single-tier regulation authorization has been replaced by a two-tier regulation system;
- minimum capital requirements of different categories of credit institutions have been raised;
- ownership share of a single owner (except for credit institutions, insurance companies and investment companies) has decreased from 25 percent to 15 percent;
- regulation of assets has been replaced by risk management;
- a new reserve item, the general risk reserve, has been

introduced;

- responsibility of the deposit insurance fund was expanded in order to allow it to make emergency decisions to prevent a banking crisis.

Legislation that was introduced in January 1998 created the conditions for the establishment of branches of foreign enterprises in the financial sector and banks are now entitled to provide the full range of investment services, including trade in stocks and publicly placed corporate bonds. As the Hungarian banking system emerges, new types of credit institutions are prepared to enter the marketplace: several home-savings institutions and the first mortgage bank have already opened their doors to the public.

#### C. Mortgage loan companies

Act XXX of 1997 established an institution long missing in the Hungarian financial sector, by creating the legal framework for mortgage loan lending, in order to encourage the granting of long-term credits. A mortgage loan company may be established as a specialized credit institution, with subscribed capital of not less than 3 billion HUF. It is the duty of the institution to provide long-term credits to prospective customers by providing coverage in the form of liens based on real estate property. Due to the special character of these activities, such an institution may only be founded exclusively for this purpose, and its operations may only cover mortgage loans and closely associated banking activities.

#### D. The Securities Act

The statutory regulations introduced on January 1, 1997 and later amended in 1998, classify investment service providers in three categories: commission agent, comprehensive securities trading firms, and investment companies (domestic or foreign). The required capital for a commission agent license is 20 million HUF, 100 million HUF for comprehensive securities trading, and 1 billion HUF for an investment company.

#### E. Investment funds

The investment fund is typically a monetary fund that is also a legal person, the owners of which are investors. The capital of the fund is raised by purchasing the investment units issued by the company that manages the fund. The investment capital is then invested by the company in securities or real estate for specified charges.

An investment fund may be established as an open-ended investment fund or a closed-ended investment fund. Funds have to be registered through the Hungarian Banking and Capital Market Supervision. The minimum amount of start-up capital in case of a security fund is 100 million HUF and in case of real estate funds 500 million HUF. A fund may be established for a definite or an indefinite period of time.

## F. Venture capital investment

Act XXXIV of 1998 allows the establishment of a venture-capital company and/or funds and serves as the regulatory framework for the development and management of such companies. Currently, there are 19 major venture capital funds active in Hungary; eight of these are so-called established funds and 11 are relatively new funds. A total of \$1 billion has been invested in hundreds of Hungarian companies through foreign venture capital funds, and the funds are currently arranging for an additional \$500 million in investment dispersion. In terms of geographical breakdown, 64 percent of venture capital in Hungary was raised by U.S. sources, 33 percent by Western European investors, and only about one percent originated in Hungary.

Foreign entities may control and manage venture companies also in the form of a branch institution. A venture capital fund may only be established as a closed-end fund. The company or fund may be created for a definite or indefinite period of time, but the duration of its operation may not be shorter than six years. The minimum required capital is 500 million HUF, which may consist only of cash contributions.

In order to reduce risk exposure, Hitelgarancia Rt. (Credit Guarantee Inc.) received authorization to provide a guarantee on capital investments that typically carry more risk than regular investment funds.

## G. Deposit insurance funds

In order to mitigate unwanted losses, the National Deposit Insurance Fund was established. The insurance exclusively covers registered deposits. The indemnification of each depositor and each credit institution is up to 1 million HUF. The resources of the Fund primarily consist of joining fees, as well as contributions of credit institutions and 80 percent of the levied supervision fines.

## H. The stock and commodity exchange processes

The Hungarian securities market began to take shape in the mid-80s after a 40-year break. The institutional framework was established when the first Securities Act was passed in February 1990, which led to the opening of the Budapest Stock Exchange in June 1990. Foreign investors, who provided four-fifths of total equity turnover early on, took a conservative position and invested largely in foreign-owned companies between 1990 and 1996. They only began to increase the ratio of Hungarian shares in their portfolios in early 1996. Total market capitalization of the Budapest Stock Exchange rose from 1.2 trillion HUF in 1995 to 5.1 trillion HUF by the end of 1997.

The Budapest Stock Exchange (BSE) totaled 63 members at the end of 1998 (62 brokerage firms and one bank). Trading is carried out in three ways: securities, government securities, and futures. As much as 96 percent of total trade takes place in the first segment. The number of securities listed and traded on the Budapest Stock Exchange is approximately 150. Of these, about 50



are equities, about 30 are government bonds, 7 are corporate bonds, 44 T-bills, 20 investment fund shares and one compensation bond.

The derivative section of the stock exchange has been functioning since March 1995. The most popular product has been the BUC index contract (with six maturities and two years in advance), followed by the U.S. dollar and the German mark.

The financial section of the Budapest Commodity Exchange is a competitor in the 3-month BUBOR, U.S. dollar, and German mark segments. It is also a contributor to the derivative section of the Budapest Stock Exchange.

The clearing of transactions of both the Budapest Stock Exchange and the Budapest Commodity Exchange is performed by Központi Elszámolóház Rt. (Central Clearing House, Inc. and the national depository.

The OTC market is less organized; broker firms publish information in leading business dailies (Napi Gazdaság, Világgazdaság) concerning public sales and purchase offers for securities of about 50 companies.

#### I. The Regulatory framework - The Hungarian Banking and Capital Market Supervision

The Hungarian Banking and Capital Market Supervision (HBCMS) was established by Act CXIV of 1996 through the combination of two separate supervisions which existed earlier. HBCMS is a public supervising authority of nation-wide scope operating under the auspices of the Hungarian government.

The scope of the supervision covers credit institutions and financial undertakings and the distribution (marketing) of securities and investment services. President of the HBCMS is appointed by the Prime Minister for a period of up to 6 years.

#### J. Market highlights

##### Market Profile

The number of credit institutions in Hungary operating as share-holding companies rose to 44 by the end of 1998, with 30 of them in majority foreign ownership. The Hungarian government continues to hold equity in a few banks. These include the National Savings Bank, Rt., commonly known as OTP (18 percent), the Commercial and Credit Bank or K & H Bank Rt. (28.8 percent), Postabank Rt. (47 percent), Budapest Bank Rt. (23 percent), Mez\_bank Rt. (5 percent), and Konzumbank Rt. (4 percent). There are currently two banks with U.S. equity in the Hungarian marketplace: Citibank and Budapest Bank (partially owned by GE Capital).

##### Statistical Data

1998 performance of the banking system can be highlighted as follows:

The estimated total assets of the five largest banks at the end of 1998 were estimated at \$16.4 billion (all figures were calculated using the official average USD exchange rate for December 1998, which was 1 USD = 215 HUF). The top 5 banks at the end of 1998 therefore are listed as follows:

1. National Savings Bank - OTP (\$7.6 billion)
2. Hungarian Foreign Commercial Bank - MKB (\$2.8 billion)
3. Hungarian Commercial and Credit Bank - K & H Bank (\$2.4 billion)
4. Central European International Bank - CIB Bank (\$1.8 billion)
5. Postabank (\$1.8 billion)

Of the two U.S.-owned banks, Budapest Bank is ranked as the 7<sup>th</sup> largest bank in Hungary with assets of \$1.2 billion and Citibank is ranked 9<sup>th</sup> with an exposure of \$926 million.

In terms of global financial institutions, more commonly known as multilateral development banks, the following five institutions are currently active in Hungary with their respective loan portfolio size in parentheses:

1. The World Bank (\$3.7 billion)
2. The European Investment Bank or EIB (1.3 billion ECU)
3. European Reconstruction and Development Bank or EBRD (1 billion ECU)
4. International Finance Corporation or IFC (\$257 million)
5. International Monetary Fund or IMF (not available).

The five largest securities trading or capital development banks are (with 1998 capital raised in parentheses):

1. ABN Amro Securities Rt. (\$2.8 billion)
2. CA IB Securities Rt. (\$1.9 billion)
3. ING Barings Rt. (\$385 million)
4. Concorde Securities Rt. (\$175 million)
5. OTP Securities Rt. (\$70 million)

The five largest venture capital companies are (with total capital managed or invested):

1. Central Europe Trust (\$300 million)
2. Róna és Társai Rt. (\$215 million)
3. Hungarian-American Enterprise Fund (\$60 million)
4. DBG Eastern Europe Kft. (\$50 million)
5. Bankár Holding Rt. (\$50 million)

#### K. Competitive analysis

As described above, the Hungarian banking and financial sectors are not yet up to par with U.S. standards. Procedures seem more bureaucratic, choices are more limited, and fees appear to be higher than those offered by U.S. banks and financial institutions. It is clear, however, that the Hungarian financial services sector has developed rapidly into the most competitive such sector in Central and Eastern Europe. The level of competition within the sector is increasing and consumer and business loans are becoming more readily available. After the

introduction of the Euro on January 1, 1999, Hungarian credit institutions made rapid adjustments to the new currency, which signaled that the Hungarian financial sector is prepared to work in harmony with the EU.

In 1989, Hungary initiated a new national clearing system to regulate the way businesses and individuals pay each other through bank transfers. Although the Hungarian payment system was the first in the region to be reformed, it is still difficult to accurately gauge the amount of time it will take to transfer money from one bank to another. Both speed and quality of services vary greatly among banks.

Foreigners may open forint, convertible forint, and hard currency personal bank accounts. Interest rates on time deposits have significantly exceeded the rate of inflation, but real interest rates on current accounts have typically not kept pace with inflation. Overall, there are more cash transactions in Hungary than is customary in Western Europe. But other methods of payment are available: money can be transferred within Hungary by postal order within three days, and credit and debit cards are becoming a widely accepted means of payment, particularly in Budapest. Currently, 23 banks offer 88 different cards to the Hungarian consumer. Of the 88 cards, there are 22 gold cards, which offer premium services to an upper-income clientele. These cards can also be used to withdraw money at some banks. Automatic teller machines can now be found all around Budapest and in other cities in Hungary. The most-widely accepted systems are Cirrus, Plus, Eurocard, Mastercard, and Visa. Citibank introduced its Diner's Club in Hungary in 1998 and Hungarian Commercial and Credit Bank launched two types of American Express cards in the same year. Applicants are screened and the applicable standards are high. For example, for a Citibank Diner's Club card, the applicant needs to be at least 25 years of age, have a net monthly income of HUF 215,000, and is required to open a counter deposit account with HUF 600,000 on hold.

According to press reports, the banking sector in Hungary is likely to go through some consolidation in the near future. Because of keen competition in the marketplace, the number of banks in Hungary is expected to decline because of mergers and acquisitions. According to bank officials, the prime motivation to undertake mergers is to cut costs. This trend is already under way. For example, Citibank bought the European Commercial Bank Rt. (EKB), at the time Hungary's 19<sup>th</sup> largest bank, from Cariplo SpA and Bank Austria AG.

On the other hand, experts point out that 40-45 banks in Hungary is not excessive. They immediately refer to Austria, a smaller market, where banks are numbered by the hundreds rather than the tens. One official says that an alternative to consolidation is for the sector to become more efficient. If costs are reduced in the short run, some mergers can be avoided. Despite a climate of consolidation, there is general agreement that mergers between the top 5 banks in Hungary are unlikely. The consolidation process will affect mostly the smaller banks.

#### L. Foreign Exchange Controls Affecting Trade

## The effects of the EURO

On January 1, 1999, the Euro became the official currency of the Economic and Monetary Union, which includes the initial group of 11 countries named in accordance with the Maastricht criteria. Effective immediately, companies in these countries may begin conducting their business transactions in Euros, while Euro notes and coins will be put into circulation no later than 2002.

The Euro has been praised because expectations are that it will ensure lower interest rates, lead to healthy public finances, and give the single market its full efficiency. In addition, the Euro is expected to facilitate the movement of goods and services within the European Union by eliminating exchange rate uncertainty and allowing companies to compare costs and, for example, to save money on foreign exchange hedging. These benefits will be particularly pronounced for small and medium-sized companies since larger firms are more likely to have the resources to manage and negotiate international financial transactions.

Banks and multinationals are largely prepared for the use of the Euro. The European banking sector intends to fully implement the principle of "no-compulsion, no-prohibition" for the use of the Euro as decided by the European Council. The changeover to Euro means that workloads will likely be reduced, working capital needs will decrease as will transaction costs, and currency spreads will be eliminated.

### Banks with Correspondent U.S. Bank

All major Hungarian banks -- Budapest Bank (now partially owned by GE Capital Credit), Hungarian Foreign Trade Bank (MKB), Hungarian Credit Bank (MHB), K&H (Commercial and Credit Bank), Postabank (Post Bank), OTP (National Savings Bank) -- have correspondent banks in the United States. Additionally, there are a number of international banks that maintain representational offices in Budapest (most with offices in the United States): ABN Amro, Creditanstalt, Credit Lyonnais, and Giro Bank.

## **IX. BUSINESS TRAVEL**

### A. Business Customs

Business customs are similar to those in the United States and Western Europe. Typically, Hungarian business people prefer to develop a relationship on which to base a business connection. Normal business hours are 9:00 to 5:00 PM. It is not uncommon for businesses to close in the early afternoon on Fridays. Luncheons, receptions and dinners are a familiar mode of doing business.

For historical reasons, Hungarians customarily do not clink beer glasses when toasting. Women business visitors should be advised that chivalry is alive and well in Hungary -- the Hungarian greeting by a man to a woman is "I kiss your hand," sometimes accompanied by the act itself. Men and women who are well acquainted kiss each other on both cheeks, right-hand first.

## B. Travel Advisory and Visas

There are no travel advisories issued for Hungary. Hungary is generally safe and hygienic, although visitors are advised to guard their personal belongings and automobiles. American citizens traveling to Hungary do not require visas. Those intending to stay for longer than 90 days will require residency permits. With certain exceptions, Americans must obtain both work and residence permits if they are employed in Hungary. To obtain a work permit, a visa for work purposes may be obtained from the Hungarian Embassy in the United States prior to arrival in Hungary. Measures designed to curb work and residence permit abuses have made the procedures more cumbersome and time-consuming. Note: U.S. citizens are prohibited from conducting any kind of commercial transactions with the Aquincum Corinthia Hotel, which is majority owned by a Specially Designated National of Libya.

## C. Holidays

Hungary celebrates the following holidays: New Year's (January 1); Revolution Day (March 15); Easter Monday (April 5, 1999); Labor Day (May 1); Whit Monday (May 24, 1999); National Day (August 20); Republic Day (October 23); Christmas (December 25); and Boxing Day (December 26).

## D. Business Infrastructure

In addition to MALÉV, the Hungarian national airline, Hungary is served by many international airlines, including Delta, Alitalia, KLM, Lufthansa, British Airways, Austrian Airlines, Olympia, SAS, Air France, Sabena, Swissair, Finnair, El Al, LOT Polish Airlines, Czech Airlines, Aeroflot, Balkan Bulgarian Airlines, Tunisair and Tarom Romanian Airlines. United Airlines and American Airlines have off-line service to Budapest, as well. Travel into the countryside is easily accomplished by car or rail. Hungary is criss-crossed by railway lines that connect most cities. The Hungarian National Railway's "Inter-City" line provides express service to several cities. A hydrofoil can be taken to Vienna. Highways are generally good, with a major construction program to upgrade connections with some outlying cities now served by two-lane roads. With the completion of the M1 highway to Vienna, the trip between Budapest and Vienna takes less than three hours.

In Budapest, there is an efficient subway (3 lines) which is supplemented by a comprehensive bus, tram and trolley system. Taxis are also available; however, it is advisable to phone one of the major taxi companies, rather than hailing at curbside. Hotel taxis are permitted to charge higher rates. Although fares are regulated from the airport, it is wise to ask the price in advance to a destination (airport to downtown is approx. \$25). There is also an airport minibus shuttle service which is reliable and costs under \$10.

Budapest has five 5-star (Hilton, Marriott, Hyatt, Kempinski, Inter-Continental) and several 4-star hotels located near the city center. Hotel facilities vary in quality beyond Budapest.

Telephone service is very reliable in Hungary, including long-distance. Budapest is serviced by three cellular phone systems as well as by several paging services. Calling card services such as AT&T, MCI and Sprint can be accessed from Hungary.

English is regularly used in business contexts. There are, of course, firms, especially smaller ones, whose principals do not speak English. In these instances, an interpreter is often made available. It is nonetheless prudent to ask in advance what interpretation provisions have been made for a meeting.

Hungarians address each other by their family names first, followed by their given names (e.g., Smith John). Business cards follow this convention unless printed in English. It is always advantageous to learn basic greetings in Hungarian. Even the most minimal efforts will be appreciated by Hungarian business partners.

"Foreign Service Posts: Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington DC 20402, tel: (202) 512-1800, fax: (202) 512-2250. Business travelers to Hungary seeking appointments with U.S. Embassy Budapest officials should contact the commercial section in advance. The commercial section can be reached by telephone at 36 1 475-4236, by fax at 36 1 475-4676 or by email at [obudapes@mail.doc.gov](mailto:obudapes@mail.doc.gov). Business representatives are encouraged to visit the Embassy's Website at <http://www.usis.hu>.

**X. APPENDICES**  
**COUNTRY COMMERCIAL GUIDE**  
**HUNGARY**  
**FISCAL YEAR 2000**

**Prepared August 10, 1999**

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**APPENDIX A: COUNTRY DATA**

(SOURCE: CENTRAL STATISTICAL OFFICE)

POPULATION (MILLION) .....	10.092
POPULATION GROWTH RATE(%) .....	0
RELIGION(S) .....	CATHOLIC/REFORMIST/JEWISH/LUTHERAN
GOVERNMENT SYSTEM .....	REPUBLIC/MULTI-PARTY
LANGUAGE(S) .....	HUNGARIAN/GERMAN/ENGLISH
WORK WEEK .....	MONDAY TO FRIDAY

**APPENDIX B: DOMESTIC ECONOMY**

(SOURCE: HUNGARIAN NATIONAL BANK)

	1997	1998	1999	2000
NOMINAL GDP (USD MILLION)	45000	47040	49000	50960
REAL GDP GROWTH (%)	4.4	5.1	4	CA 4
GDP PER CAPITA (USD)	4158	4704	4870	5050
GOV. SPENDING AS A percent OF GDP		50-51	45.08Ca 50-51	--
CONSUMER PRICE INFLATION (%)	18.3	14.3	CA. 9	CA. 7
UNEMPLOYMENT RATE (%)* /	10.4	9.1	9.5	CA. 9
EXCHANGE RATE (annual average) FOR USD	186.82	14.52	40.0	CA. 260
DEBT SERVICE PAYMENTS/ EXPORT** (%)	25.3	15.57	CA 15.81	CA 15.0
CUM. CAPITAL OUTFLOW	937	1.286	CA 2.0	CA 2.0



**APPENDIX C: TRADE (IN MILLIONS OF U.S. DOLLARS)**

(SOURCE: HUNGARIAN GLOBAL TRADE STATISTICS: HUNGARIAN MINISTRY OF FINANCE

U.S.-HUNGARIAN TRADE FIGURES: U.S. DEPARTMENT OF COMMERCE)

	1997	1998	1999*	2000
<b>HUNGARIAN EXPORTS**</b>	<b>19100</b>	<b>23005</b>	<b>22858</b>	<b>CA 23000</b>
<b>EXPORTS TO USA***</b>	<b>1078</b>	<b>1567</b>	<b>1595</b>	<b>--</b>
<b>HUNGARIAN IMPORTS**</b>	<b>21234</b>	<b>25706</b>	<b>25393</b>	<b>CA 27000</b>
<b>IMPORTS FROM USA***</b>	<b>486</b>	<b>482</b>	<b>524</b>	<b>--</b>
<b>FX RESERVES</b>				
<b>BILLIONS OF U.S. DOLLARS</b>	<b>8.45</b>	<b>9.37</b>	<b>CCA. 9.0</b>	<b>--</b>

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NOTES TO APPENDICES B&C:

\*/ EXTRAPOLATED FROM JANUARY-MAY 1999 TRADE STATISTICS

\*\*/ HUNGARIAN CUSTOMS STATISTICS INCLUDES CUSTOMS FREE ZONES

\*\*\*/ STAT USA - U.S. DEPARTMENT OF COMMERCE TRADE STATISTICS

## APPENDIX D: INVESTMENT STATISTICS

### Foreign Direct Investment Statistics

Based on information from the Ministry of Industry and Trade, foreign direct investment totaled \$19.7 billion at the end of 1998. Hungary has received annual foreign direct investment (FDI) inflows equal to \$2 billion in each of the past three years and expects to receive similar amounts annually through 2002. At the end of 1998, some 35,000 joint ventures were registered in Hungary and forty of the world's 50 largest multinational companies now have a Hungarian subsidiary.

Foreign Direct Investment in Hungary (does not include in-kind contributions)

(\$ million)

Year	Value
----	-----
1989	350
1990	850
1991	1,651
1992	1,487
1993	2,294
1994	1,684
1995	4,949
1996	2,828
1997	1,214
1998	2,384
Total19,691	

Of all investments made up to the end of 1998, 50 percent of foreign capital was channeled to industry, 15 percent to the telecommunication sector, 13 percent in energy production/supply, 6 percent in bank and finance, and another 6 percent in commerce and 10 percent in other branches.

The United States is the leading investor in Hungary with approx. USD 7 billion of FDI (or 29 percent of investments above USD 10 million). Other major investing countries are Germany, France, Austria, and the Netherlands, followed by Italy, Sweden, Great Britain, Switzerland, Japan, and Canada.

Most Hungarian investment abroad is located in neighboring countries. Hungarian investment of various forms in the United States currently totals about \$113 million.

#### Major Foreign Investments in Hungary

Listed below are major foreign direct investments in Hungary, primarily privatization and greenfield projects. This list is not exhaustive, but indicative only. Investment totals reflect cumulative foreign capital invested, at historical cost. In some cases, reinvested local revenues and subsequent company growth mean that the current market value of the foreign investor's stake substantially exceeds the original capital invested.

FOREIGN INVESTORS: MagyarCom (Ameritech and Deutsche Telekom)  
COUNTRY OF ORIGIN: United States/Germany  
FOREIGN CAPITAL INVESTED: USD 1.727 billion  
SECTOR: Telecommunications  
LOCAL SUBSIDIARY: MATÁV

FOREIGN INVESTOR: General Electric (GE Lighting)  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 736 million  
SECTOR: Lighting  
LOCAL SUBSIDIARY: GE Lighting Tungstram

FOREIGN INVESTORS: RWE Energie AG / Energie Baden-Württemberg AG  
COUNTRY OF ORIGIN: Germany  
FOREIGN CAPITAL INVESTED: DM 1 billion  
SECTOR: Electricity  
LOCAL SUBSIDIARY: Elm\_ / Émász / Mátra Power Plant / RWE Hungary

FOREIGN INVESTOR: Eridania Beghin-Say SA  
COUNTRY OF ORIGIN: France  
FOREIGN CAPITAL INVESTED: USD 540 million  
SECTOR: Production and marketing of sugar  
LOCAL SUBSIDIARY: Eridania Beghin-Say / Szolnok Sugar Factory / Szerencse Sugar Factory / Mátra Regional Sugar Factory / Cereol / Agrokomplex

FOREIGN INVESTOR: Aegon Insurance  
COUNTRY OF ORIGIN: The Netherlands  
FOREIGN CAPITAL INVESTED: HUF 108.8 billion  
SECTOR: Insurance  
LOCAL SUBSIDIARY: Aegon Insurance Group (AB-Aegon General Insurance / AB-Moneta / AB Novinvest / Aegon Pension Fund)

FOREIGN INVESTOR: General Motors  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 450 million  
SECTOR: Finished autos/auto parts  
LOCAL SUBSIDIARY: Opel Hungary

FOREIGN INVESTORS: Scandinavian PTTs (PTT Telecom / Telenor / Teledenmark / Telecom)  
COUNTRY OF ORIGIN: The Netherlands / Norway / Denmark / Finland  
FOREIGN CAPITAL INVESTED: USD 400 million

SECTOR: Telecommunications (Mobile)  
LOCAL SUBSIDIARY: Pannon GSM

FOREIGN INVESTORS: Volkswagen/Audi  
COUNTRY OF ORIGIN: Germany  
FOREIGN CAPITAL INVESTED: DM 700 million  
SECTOR: Finished autos/auto parts  
LOCAL SUBSIDIARY: Audi Hungaria

FOREIGN INVESTORS: Banca Commerciale Italiana  
COUNTRY OF ORIGIN: Italy  
FOREIGN CAPITAL INVESTED: USD 370 million  
SECTOR: Banking  
LOCAL SUBSIDIARY: CIB Bank

FOREIGN INVESTOR: Bayernwerk AG  
COUNTRY OF ORIGIN: Germany  
FOREIGN CAPITAL INVESTED: USD 370 million  
SECTOR: Electricity distribution  
LOCAL SUBSIDIARY: Dédász / Édász / Titász / K\_gáz / Bayernwerk  
Hungaria

FOREIGN INVESTOR: Ericsson  
COUNTRY OF ORIGIN: Sweden  
FOREIGN CAPITAL INVESTED: USD 350 million  
SECTOR: Telecommunication  
LOCAL SUBSIDIARY: Ericsson

FOREIGN INVESTOR: US West  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 330 million

SECTOR: Telecommunications (Mobile)  
LOCAL SUBSIDIARY: Westel 900 Telecommunications

FOREIGN INVESTOR: Coca-Cola  
COUNTRY OF ORIGIN: U.S. and other  
FOREIGN CAPITAL INVESTED: USD 280 million  
SECTOR: Beverages  
LOCAL SUBSIDIARY: Coca-Cola Hungary

FOREIGN INVESTOR: Electricite de France (EdF)  
COUNTRY OF ORIGIN: France  
FOREIGN CAPITAL INVESTED: USD 253.5 million  
SECTOR: Electricity  
LOCAL SUBSIDIARY: Édász/Démász/EdF

FOREIGN INVESTOR: Vivendy CG Sat Hungary  
COUNTRY OF ORIGIN: Netherlands  
FOREIGN CAPITAL INVESTED: USD 250 million  
SECTOR: Telephone operator  
LOCAL SUBSIDIARY: Deltav / Digitel 2002 / Jásztel

FOREIGN INVESTOR: Hungarian Telephone and Cable Corporation  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 250 million  
SECTOR: Telephone operator  
LOCAL SUBSIDIARY: HTCC Consulting Rt. /Pápatel/ Rábacom/ Kelet-Nógrádcom/Hungarotel Rt.

FOREIGN INVESTOR: Suzuki Motor Corporation  
COUNTRY OF ORIGIN: Japan  
FOREIGN CAPITAL INVESTED: USD 250 million  
SECTOR: Finished autos  
LOCAL SUBSIDIARY: Magyar Suzuki

FOREIGN INVESTOR: ABN AMRO  
COUNTRY OF ORIGIN: Netherlands  
FOREIGN CAPITAL INVESTED: USD 237 million  
SECTOR: Banking  
LOCAL SUBSIDIARY: ABN AMRO

FOREIGN INVESTORS: VEW/Ruhrgas  
COUNTRY OF ORIGIN: Germany  
FOREIGN CAPITAL INVESTED: USD 227 million  
SECTOR: Gas Distribution  
LOCAL SUBSIDIARY: Budapest Gas Works / Ddgaz

FOREIGN INVESTOR: Allianz  
COUNTRY OF ORIGIN: Germany  
FOREIGN CAPITAL INVESTED: USD 220 million  
SECTOR: Insurance  
LOCAL SUBSIDIARY: Hungaria Biztosító

FOREIGN INVESTOR: UTI  
COUNTRY OF ORIGIN: The Netherlands  
FOREIGN CAPITAL INVESTED: USD 216 million  
SECTOR: Telecommunications  
LOCAL SUBSIDIARY: UTI

FOREIGN INVESTOR: VodafoneAirtouch  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 206 million (as of June 1998)  
SECTOR: Telecommunications  
LOCAL SUBSIDIARY: Primatel

FOREIGN INVESTOR: Gaz de France  
COUNTRY OF ORIGIN: France  
FOREIGN CAPITAL INVESTED: USD 202 million  
SECTOR: Natural gas distribution  
LOCAL SUBSIDIARY: Égáz/Dégáz/GdF Representation, Pannon Energia

FOREIGN INVESTOR: Sanofi SA  
COUNTRY OF ORIGIN: France  
FOREIGN CAPITAL INVESTED: approx. USD 200 million  
SECTOR: Pharmaceuticals  
LOCAL SUBSIDIARY: Chinoin

FOREIGN INVESTOR: Tractebel SA  
COUNTRY OF ORIGIN: Belgium  
FOREIGN CAPITAL INVESTED: USD 180 million  
SECTOR: Electricity  
LOCAL SUBSIDIARY: Dunamenti Power Co.

FOREIGN INVESTOR: Ford Motors  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 165 million  
SECTOR: Automotive parts  
LOCAL SUBSIDIARY: Ford Hungaria

FOREIGN INVESTOR: Prinzhorn Groupe  
COUNTRY OF ORIGIN: Austria  
FOREIGN CAPITAL INVESTED: USD 160 million  
SECTOR: Paper and packaging  
LOCAL SUBSIDIARY: Dunapack/Halaspack

FOREIGN INVESTOR: Aluminum Company of America (Alcoa)  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 150 million  
SECTOR: Aluminum  
LOCAL SUBSIDIARY: Alcoa-K\_fém

FOREIGN INVESTOR: IBM  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 150 million  
SECTOR: Fixed disk drives  
LOCAL SUBSIDIARY: IBM Storage Products Hungary

FOREIGN INVESTOR: PepsiCo  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 150 million  
SECTOR: Beverages  
LOCAL SUBSIDIARY: F\_városi Ásványvíz (Budapest Mineral water and Soft Drinks)

FOREIGN INVESTOR: Feruzzi  
COUNTRY OF ORIGIN: Italy  
FOREIGN CAPITAL INVESTED: USD 160 million

SECTOR: Food, detergents  
LOCAL SUBSIDIARY: NMV

FOREIGN INVESTOR: Philip Morris  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 150 million  
SECTOR: Consumer Goods  
LOCAL SUBSIDIARY: Egri Dohánygyár

FOREIGN INVESTOR: AES  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 130 million  
SECTOR: Electricity generation, coal  
LOCAL SUBSIDIARY: Dunaújváros

FOREIGN INVESTOR: Siemens  
COUNTRY OF ORIGIN: Germany  
FOREIGN CAPITAL INVESTED: USD 129 million  
SECTOR: Electronics and electrical engineering  
LOCAL SUBSIDIARY: Siemens Hungary

FOREIGN INVESTOR: Guardian Glass  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 110 million  
SECTOR: Glass  
LOCAL SUBSIDIARY: Hunguard

FOREIGN INVESTOR: Bristol Myers  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 110 million  
SECTOR: Pharmaceuticals  
LOCAL SUBSIDIARY: Pharmavit Squibb

FOREIGN INVESTOR: Sara Lee/Douwe Egbert  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 100 million  
SECTOR: Food processing  
LOCAL SUBSIDIARY: Compack

FOREIGN INVESTOR: Baruse BV./Pennecom BV.  
COUNTRY OF ORIGIN: the Netherlands  
FOREIGN CAPITAL INVESTED: USD 100 million  
SECTOR: Telecommunications  
LOCAL SUBSIDIARY: Monortel

FOREIGN INVESTOR: Servier  
COUNTRY OF ORIGIN: France  
FOREIGN CAPITAL INVESTED: USD 100 million  
SECTOR: Pharmaceuticals  
LOCAL SUBSIDIARY: Egis

FOREIGN INVESTOR: Metro  
COUNTRY OF ORIGIN: Germany  
FOREIGN CAPITAL INVESTED: USD 100 million  
SECTOR: Food retailing  
LOCAL SUBSIDIARY: Metro

FOREIGN INVESTOR: Unilever

COUNTRY OF ORIGIN: Holland/UK  
FOREIGN CAPITAL INVESTED: USD 100 million  
SECTOR: Food, detergents  
LOCAL SUBSIDIARY: Unilever

FOREIGN INVESTOR: Hungarian Investment  
COUNTRY OF ORIGIN: UK  
FOREIGN CAPITAL INVESTED: USD 100 million  
SECTOR: Investment fund  
LOCAL SUBSIDIARY: Nikex

FOREIGN INVESTOR: Philips Car Systems  
COUNTRY OF ORIGIN: Germany  
FOREIGN CAPITAL INVESTED: USD 100 million  
SECTOR: Car stereos, CD/cassette players  
LOCAL SUBSIDIARY: Euroton Technica



FOREIGN INVESTOR: Denso Corporation  
COUNTRY OF ORIGIN: Japan  
FOREIGN CAPITAL INVESTED: USD 100 million  
SECTOR: Car components  
LOCAL SUBSIDIARY: Denso Manufacturing Hungary Ltd.

FOREIGN INVESTORS: Various  
COUNTRY OF ORIGIN: France/Austria  
FOREIGN CAPITAL INVESTED: USD 220 million  
SECTOR: Construction  
LOCAL SUBSIDIARY: Hungarian Euro-Expressway

FOREIGN INVESTOR: GE Capital Corporation  
COUNTRY OF ORIGIN: United States  
FOREIGN CAPITAL INVESTED: USD 87 million  
SECTOR: Financing  
LOCAL SUBSIDIARY: Budapest Bank

FOREIGN INVESTORS: First Hungary Fund  
COUNTRY OF ORIGIN: United Kingdom  
FOREIGN CAPITAL INVESTED: USD 80 million  
SECTOR: Portfolio  
LOCAL SUBSIDIARY: Rónai és Társai Rt.

FOREIGN INVESTORS: Host Marriott Corp./Erste Bank  
COUNTRY OF ORIGIN: USA/Austria  
FOREIGN CAPITAL INVESTED: USD 75 million  
SECTOR: Hotel  
LOCAL SUBSIDIARY: Marriott

SOURCE: Company statistics and Hungarian Investment and Trade Development (ITD) Agency.

#### **APPENDIX E: U.S. AND COUNTRY CONTACTS**

##### **A. U.S. Embassy Personnel**

American Embassy Budapest  
Ambassador: Peter Tufo  
Deputy Chief of Mission: Thomas B. Robertson  
Economic Counselor: Jean A. Bonilla  
Commercial Counselor: John Fogarasi (see below)  
Consul General: Susan Alexander  
Political Counselor: Kyle Scott  
Defense Attaché: Colonel James P. Mault  
Szabadság tér 12  
H-1054 Budapest  
Tel: (36)(1) 475-4400  
Fax: (36)(1) 475-4764  
Homepage: [www.usis.hu/emb.htm](http://www.usis.hu/emb.htm)

U.S. Agency For International Development (USAID)  
USAID Representative: Patricia Lerner  
Bank Center Granite Tower  
Szabadság tér 7-9  
H-1054 Budapest  
Tel: (36)(1) 475-4314  
Fax: (36)(1) 302-0693

Homepage: [www.c3.hu/~bobafat/usaaid](http://www.c3.hu/~bobafat/usaaid)

U.S. Commercial Service

Senior Commercial Officer: John J. Fogarasi  
Commercial Attaché: Pamela Ward  
Bank Center Granite Tower  
Szabadság tér 7-9  
H-1054 Budapest  
Tel: (36)(1) 475-4236  
Fax: (36)(1) 475-4676  
Homepage: [www.usis.hu/fcs.htm](http://www.usis.hu/fcs.htm)

U.S. Information Service

Public Affairs Officer: Jim Nealon  
Bank Center Granite Tower  
Szabadság tér 7-9  
H-1054 Budapest  
Tel: (36)(1) 475-4766  
Fax: (36)(1) 475-4764  
Homepage: [www.usis.hu/usisbp.htm](http://www.usis.hu/usisbp.htm)

U.S. Department of Agriculture

Resident Local Agricultural Specialist: Ferenc Nemes  
Tel: (36)(1) 475-4162  
Fax: (36)(1) 475-4676  
Agricultural Counselor (Embassy Vienna): Allen Mustard  
Tel: (43)(1) 313-39  
Fax: (43)(1) 310-8208  
Homepage: [www.usda.gov](http://www.usda.gov)

Office of Defense Cooperation

Chief: Walter Riedle  
Bank Center Granite Tower  
Szabadság tér 7-9  
H-1054 Budapest  
Tel: (36)(1) 475-4400  
Fax: (36)(1) 475-4764

B. AmCham and Bilateral Business Councils

American Chamber of Commerce in Hungary

Executive Director: Péter Fáth  
Deák Ferenc utca 10  
H-1051 Budapest  
Tel: (36)(1) 266-9880  
Fax: (36)(1) 266-9888  
Homepage: [www.hungary.com/amcham/](http://www.hungary.com/amcham/)

C. Trade and Industry Associations

Hungarian Chamber of Commerce and Industry

President: Dr. Lajos Tolnay  
Kossuth Lajos tér 6-8  
H-1055 Budapest  
Tel: (36)(1) 474-5111  
Fax: (36)(1) 474-5113

Hungarian Banking Association

Secretary General: Miklós Pulai  
Roosevelt tér 7-8  
H-1051 Budapest  
Tel: (36)(1) 312-5826  
Fax: (36)(1) 331-1723

Association of IT Companies  
President: Tibor Gyuros  
Madách tér 3  
H-1075 Budapest  
Tel: (36)(1) 327-8345  
Fax: (36)(1) 327-7343

Hungarian Chamber of Database Suppliers  
Secretary: András Félegyházi  
Kuny Domokos utca 13-15  
H-1012 Budapest  
Tel: (36)(1) 213-5089  
Fax: (36)(1) 375-9722

Association of Hungarian Building Materials Industry  
President: Dr. Miklós Szabó  
Secretary: László Tamás  
F\_ utca 68  
H-1027 Budapest  
Tel: (36)(1) 201-6682  
Fax: (36)(1) 356-1215, 201-6682

Association of the Hungarian Chemical Industries  
Secretary General: Dr. László Bondár  
Erzsébet királyné útja 1/c  
H-1146 Budapest  
Tel: (36)(1) 343-8920  
Fax: (36)(1) 343-0980

Association of the Hungarian Electronic and Informatics Industries  
Secretary General: István Basa  
Szemere utca 17  
H-1054 Budapest  
Postal address: POB 33  
H-1525 Budapest  
Tel: (36)(1) 331-8986 and 311-6271  
Fax: (36)(1) 331-6320

National Professional Association of the Environment  
Protection Industry  
Managing Director: Anna Székely  
Heged\_s Gyula utca 68  
H-1133 Budapest  
Tel: (36)(1) 350-7271  
Fax: (36)(1) 350-7274

National Association of Trading Companies  
Secretary General: György Vámos  
Kuny Domokos utca 13-15  
H-1012 Budapest  
Tel: (36)(1) 355-9689 and 202-6574  
Fax: (36)(1) 355-9689

Hungarian Franchise Association

President: Endre Pinczesi  
Margit körút 15-17  
H-1024 Budapest  
Tel: (36)(1) 212-4124  
Fax: (36)(1) 212-5712

Association of Hungarian Insurance Companies

President: Dr. Ottó Csurgó  
Deák Ferenc utca 10  
H-1052 Budapest  
Tel: (36)(1) 318-3473  
Fax: (36)(1) 337-5394

Association of the Hungarian Light Industries

Secretary General: József Cseh  
Address: Rózsa Ferenc utca 55  
H-1064 Budapest  
Postal address: POB 329  
H-1390 Budapest  
Tel: (36)(1) 341-4793

Association of the Hungarian Pharmaceutical Industries

Director: László Buzás  
President: Dr. István Orbán  
Vörösmarty tér 1  
H-1051 Budapest  
Tel: (36)(1) 318-3788  
Fax: (36)(1) 318-3957, 318-8587

Federation of Public Road Transport Firms

Secretary General: András Dénes  
Teréz körút 38  
H-1066 Budapest  
Tel: (36)(1) 332-9939  
Fax: (36)(1) 332-9939

Association of Real-Estate Dealers

President: Peter Mehrli  
Deák Ferenc utca 10, III/305  
H-1052 Budapest  
Tel/Fax: (36)(1) 318-9857

Joint Venture Association

Acting President: Iván Toldy-\_sz  
Kuny Domokos utca 13-15  
H-1012 Budapest  
Tel: (36)(1) 212-2506  
Fax: (36)(1) 356-2506, 212-2506

National Association of Building Contractors

Managing Director: János Nagy  
Döbrentei tér 1  
H-1013 Budapest  
Tel: (36)(1) 201-0333  
Fax: (36)(1) 201-3840

National Association of Food Processing Companies  
Secretary General: László Piros  
Kuny Domokos utca 13-15  
H-1012 Budapest  
Tel: (36)(1) 202-5586  
Fax: (36)(1) 355-5057

National Association of Packaging and Material Handling  
Secretary General: György Viszkei  
Rigó utca 3, I  
H-1085 Budapest  
Tel: (36)(1) 210-0101, 313-7034  
Fax: (36)(1) 333-8170

Association of the Plastics Industry  
Secretary: Kálmán Wappel  
Erzsébet királyné útja 1/c  
H-1146 Budapest  
Tel: (36)(1) 343-0759  
Fax: (36)(1) 343-0759

D. Government Offices

Ministry of Economics  
International Relations/USA Desk: Vilmos Fohring  
Honvéd utca 13-15  
H-1055 Budapest  
Tel: (36)(1) 312-2842  
Fax: (36)(1) 332-9750  
Homepage: [www.ikm.hu](http://www.ikm.hu)

Ministry of Finance  
József nádor tér 2-4  
H-1051 Budapest  
Tel: (36)(1) 318-2066, 338-2633  
Fax: (36)(1) 318-2570

Ministry of Environment and Regional Policy  
International Relations: Eszter Szövényi  
F\_ utca 44-50  
H-1011 Budapest  
Tel: (36)(1) 457-3300  
Fax: (36)(1) 201-2846

Ministry of Transport, Communication and Water Management  
Dob utca 75-81  
H-1077 Budapest  
Tel: (36)(1) 322-0220, 342-0520  
Fax: (36)(1) 302-2394  
Homepage: [www.mar.hu/khvm](http://www.mar.hu/khvm)

National Bank of Hungary  
President: György Surányi  
Szabadság tér 8-9  
H-1054 Budapest  
Tel: (36)(1) 269-4760, 302-3000  
Fax: (36)(1) 332-39

State Privatization and Holding Co. (APV Rt.)  
General Director: Gyula Gansberger  
Chairman:  
Pozsonyi út 56  
H-1133 Budapest  
Tel: (36)(1) 359-7600  
Fax: (36)(1) 349-5745

Hungarian Export-Import Bank Ltd.  
CEO: Frigyes Bánki  
Nagymez\_ utca 46-48  
H-1065 Budapest  
Tel: (36)(1) 269-0580  
Fax: (36)(1) 269-4476

E. Market Research Firms

Kopint-Datorg Rt.  
President: János Deák  
CEO: Peter Kratochwill  
Csokonai utca 3  
H-1081 Budapest  
Tel: (36)(1) 210-1550  
Fax: (36)(1) 303-1000

Gallup Hungary  
Vice President: Robert Manchin  
F\_ tér 1  
H-1033 Budapest  
Tel: (36)(1) 250-0999  
Fax: (36)(1) 250-0650

Bau Data Project Information and Consulting  
General Manager: Anna Gáspár  
Németvölgyi út 114  
H-1124 Budapest  
Tel: (36)(1) 319-0241  
Fax: (36)(1) 319-2959

Macro-TQI  
Country Manager: Tamás Gecti  
Vörösmarty tér 1  
H-1051 Budapest  
Tel/Fax: (36)(1) 266-6272

Amer-Nielsen Marketing Research Kft.  
CEO: Christou Michalis  
Váci utca 81  
H-1056 Budapest  
Tel: (36)(1) 327-9700  
Fax: (36)(1) 327-9790  
Homepage: [www.anr.hu](http://www.anr.hu)

F. Commercial Banks

Budapest Bank (GE Capital)  
President: Richard Pelly  
Alkotmány utca 3

H-1054 Budapest, Hungary  
Tel: (36)(1) 269-2333 and 269-2358  
Fax: (36)(1) 269-2417  
Homepage: [www.bbrt.hu](http://www.bbrt.hu)

Commercial and Credit (K&H) Bank

CEO: Tibor E. Rejtő  
Vigadó tér 1  
H-1051 Budapest  
Tel: (36)(1) 267-5000  
Fax: (36)(1) 266-9696, 328-9088

Hungarian Credit Bank (Magyar Hitel Bank)

CEO: Zsigmond Járai  
Barczi István utca 3  
H-1052 Budapest  
Tel: (36)(1) 266-6907, 117-1499  
Fax: (36)(1) 266-6845

National Savings and Commercial Bank (OTP)

CEO and Chairman: Dr. Sándor Csányi  
Nádor utca 16  
H-1051 Budapest  
Tel: (36)(1) 353-1444  
Fax: (36)(1) 312-6858

Postabank

Chairman & CEO:  
József nádor tér 1  
H-1051 Budapest  
Tel: (36)(1) 318-0855  
Fax: (36)(1) 317-1369  
Homepage: [www.postabank.hu](http://www.postabank.hu)

Hungarian Foreign Trade Bank (MKB)

CEO: Tamás Erdei  
Váci utca 38  
H-1056 Budapest  
Tel: (36)(1) 269-0922  
Fax: (36)(1) 269-0959  
Homepage: [www.mkb.hu](http://www.mkb.hu)

Citibank Budapest

President: Richard D. Jackson  
Szabadság tér 7  
H-1054 Budapest  
Tel: (36)(1) 374-5000  
Fax: (36)(1) 374-5100  
Homepage: [www.citibank.hu](http://www.citibank.hu)

Central European International Bank (CIB)

President & CEO: György Zdeborszky  
Int'l Banking Rel.: Péter Bánki, Director  
Medve utca 4-14  
H-1027 Budapest  
Tel: (36)(1) 212-1330  
Fax: (36)(1) 212-4200

ABN Amro Bank Magyarország Rt.  
CEO: Bernard Yoncourt  
Pozsonyi utca 77-79  
H-1133 Budapest  
Tel: (36)(1) 202-2722  
Fax: (36)(1) 349-4127

Creditanstalt  
Managing Director: Matthias Kunsch  
Akadémia utca 17  
H-1054 Budapest  
Tel: (36)(1) 269-0812  
Fax: (36)(1) 353-4959

Credit Lyonnais Magyarország Rt.  
Managing Director: Jacques Yves Mulliez  
József nádor tér 7  
H-1051 Budapest  
Tel: (36)(1) 266-9000  
Fax: (36)(1) 266-9950

Internationale Nederlanden (ING) Bank  
General Manager: Anthony van der Heijden  
Andrássy út 9  
H-1061 Budapest  
Tel: (36)(1) 268-0140, 321-1320  
Fax: (36)(1) 269-6447, 268-0159  
Homepage: [www.ing.nl/holland/](http://www.ing.nl/holland/)

American Express Hungary Ltd.  
Managing Director: Mrs. Erzsébet Lechner  
Deák Ferenc utca 10  
H-1052 Budapest  
Tel: (36)(1) 235-4330  
Fax: (36)(1) 267-2028

#### G. Multilateral Development Banks

Multilateral Development Bank Operations  
U.S. Department of Commerce  
USA Trade Center  
Ronald Reagan Building  
Mezzanine Level  
Washington, D.C. 20230  
Tel: (202) 482-3399  
Fax: (202) 482-3914  
Homepage: [www.ita.doc.gov/mbdo](http://www.ita.doc.gov/mbdo)

EBRD European Bank for Reconstruction & Development  
Head of Resident Office: Hubert Warsmann  
Rákóczi út 42  
H-1072 Budapest  
Tel: (36)(1) 266-6000  
Fax: (36)(1) 266-6003  
Homepage: [www.ebrd.com/english/index.htm](http://www.ebrd.com/english/index.htm)

IBRD Int'l Bank for Reconstruction & Development (The WORLD BANK)  
Country Director: Roger Grawe



Bajcsy-Zsilinszky út 42-46  
H-1054 Budapest  
Tel: (36)(1) 374-9500  
Fax: (36)(1) 374-9510  
Hungarian Representative (Washington D.C.): Katalin  
Demeter  
Tel: (1) (202) 478-4673  
Tax: (1) (202) 522-3453  
Homepage: [www.worldbank.org](http://www.worldbank.org)

IFC International Finance Corporation  
Acting Resident Representative: Borbála Czakó  
Bajcsy-Zsilinszky út 72-76  
H-1054 Budapest  
Tel: (36)(1) 374-9590  
Fax: (36)(1) 374-9597

#### H. U.S. Government Contacts

Export-Import Bank of the United States  
Senior Loan Officer: Walter B. Hill Jr.  
811 Vermont Avenue, N.W.  
Washington, D.C. 20571  
Tel: 202-565-3555  
Fax: 202-565-3558  
General Numbers  
Tel: 202-565-3800  
Fax: 202-565-3380  
Homepage: [www.exim.gov](http://www.exim.gov)

Overseas Private Investment Corporation (OPIC)  
Insurance: Meryl Burpoe  
Finance: Brian W. Treadwell  
Investment Promotion: Barbara Brereton  
Regional Business Development Manager: James Gale  
1100 New York Avenue, NW  
Washington, DC 20572  
Tel: 202-336-8617  
Fax: 202-408-5145  
Homepage: [www.opic.gov](http://www.opic.gov)

Small Business Administration  
Homepage: [www.sba.gov](http://www.sba.gov)

Trade Information Center in Washington:  
Tel: 1-800-USA-Trade  
Homepage: [www.ita.doc.gov](http://www.ita.doc.gov)

U.S. Department of Agriculture,  
Foreign Agricultural Service  
AgExport Services Division  
Tel: (202) 720-6343  
Fax: (202) 690-4374  
Homepage: [www.fas.usda.gov](http://www.fas.usda.gov)

U.S. Department of Commerce  
Market Access & Compliance (MAC)  
14th & Constitution Ave, NW

Washington, DC 20230  
Hungary Desk Officer: Laurie Molnár  
Tel: (202) 482-4915  
Fax: (202) 482-4505  
Jay Burgess, Director  
Tel: (202) 482-2645  
Fax: (202) 482-4473  
Homepage: [www.ita.doc.gov](http://www.ita.doc.gov)

U.S. Department of Commerce  
The Central and Eastern Europe Business Information Center  
(CEEbIC)  
Loren Drake, Director  
1300 Pennsylvania Ave., NW  
USA Trade Center  
Suite 800 (Mezzanine Level)  
Tel: (202) 482-2645  
Fax: (202) 482-3898  
Homepage: [www.itaiep.doc.gov/eebic/ceebic.htm/](http://www.itaiep.doc.gov/eebic/ceebic.htm/)

U.S. Department of State  
Regional Economic Officer: Michael Spangler  
Hungary Desk Officer: Becky Joyce  
EUR/EE 5220  
2201 C Street, NW  
Washington, DC 20520  
Tel: (202) 647-4577  
Fax: (202) 736-4853  
Office of the Coordinator for Business Affairs  
Tel: 202-746-1625  
Fax: 202-647-3953

U.S. Trade & Development Agency  
Country Manager: Lance Ludman  
Room 309 SA-16  
Washington, DC 20523-1602  
Tel: (703) 875-4357  
Fax: (703) 875-4009  
Homepage: [www.tda.gov](http://www.tda.gov)

Office of the U.S. Trade Representative  
Deputy U.S. Trade Representative: Cathy Novelli  
Executive Office of the President  
Washington, DC 20506  
Tel: 202-395-3204  
Fax: 202-395-3911  
Homepage: [www.ustr.gov](http://www.ustr.gov)

## **APPENDIX F: MARKET RESEARCH**

Air Pollution Control - ISA (POL)  
Architecture/Construction/Engineering Services, ISA (ACE)  
Automotive Parts & Service Equipment, ISA (APS)  
Banking & Financial Services, ISA (FNS)  
Computer Hardware Market, IMI (CPT)  
Computer Networking, ISA (CPT)  
Computers, ISA (CPT)  
Cosmetics Industry, ISA (COS)  
Defense Market Guide, IMI (DFN)  
Equipment & Services for Upgrading Power Generation Facilities,  
ISA (ELP, POL)  
Films/Videos/CDs/Books, ISA (FLM, BOK)  
Health Care Market, ISA (MED)  
Household Consumer Goods, ISA (HCG)  
Medical Equipment, ISA (MED)  
Mobile Telecommunications Equipment, ISA (TEL, TES)  
Waste Management, ISA (POL)  
Wastewater Treatment, ISA (POL)

A complete list of market research is available on the National Trade Data Bank (NTDB).

## **APPENDIX G: TRADE EVENT SCHEDULE**

November 2-4, 1999	U.S. Environmental & Process Technologies Conference (U.S. Trade Development Agency)
November 9-10, 1999	Intellectual Property Rights Conference
December 8-9, 1999	Energy Trade Mission
March 22-26, 2000	UTAZAS '2000 - International Travel Industry Expo
June 1-30, 2000	Environmental 2000 Trade Mission

Because trade event schedules may change, firms should consult the export promotion calendar on the NTDB or contact CS Budapest for the latest information.